JM Financial Limited Q2 & H1 FY 2021 Earnings Conference Call

October 28, 2020

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Moderator: Ladies and gentlemen, good day, and welcome to the Earnings Conference Call of JM Financial Limited, to discuss the Company's Financial Performance for the Quarter and Half Year ended September 30, 2020. 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 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 – Managing Director, JM Financial Group. 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 to discuss our financial results, both for the second quarter, as well as the half year ended at FY 2021. I hope all of you have had a chance to go through our presentation, our press release and the results. We have updated the same on our website as well as the stock exchanges yesterday.

I am joined on this call by our Group CFO, Mr. Manish Sheth; Mr. Subodh Shinkar – MD and CEO of our Investment Advisory Business; Mr. Shashwat Belapurkar – CEO of our Real-Estate Business; Mr. Anil Bhatia, who heads our Distressed Credit Business; Ms. Gitanjali Mirchandani, Head of Origination for the Real-Estate business; Ms. Sonia Dasgupta, Head of Financial Institutions and Group Borrowings and Mr. Ajay Mishra, Head of our Private Wealth business; as well as all our CFOs for the NBFC including the ARC businesses.

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

Our consolidated revenue for half year ended FY 2021 stood at Rs. 1,495 crores. This is a decrease of 12.5% Y-o-Y. For the same period, our PAT stood at Rs. 233 crores, a decrease of 9.4% Y-o-Y. Given the uncertainties around COVID-19, we have prudently taken additional provisions across the Group to the tune of Rs. 123 crores for the half year ended FY 2021. Our adjusted profit after tax, adjusting it for the COVID provision and after non-controlling interest, was at Rs. 289 crores for the half year ended FY 2021.

Moving on to our loan book details:

Our consolidated loan book stands at Rs. 11,386 crores, which is down by 17.6% Y-o-Y. The breakup of the loan book is as follows.

The wholesale mortgage book constitutes 73.9% of our loan book, which is approximately Rs. 8,410 crores. This book registered a year-on-year de-growth of 8.3%. The capital market book constitutes 4.7% of the loan book, which is approximately Rs. 533 crores. It registered a year-on-year de-growth of 51.6%.

Our corporate lending loan book, which also includes promoter lending book, constitutes 14.5% of our loan book, which is approximately Rs. 1,654 crores. This book de-grew 43.0% Y-o-Y.

Our retail mortgages loan book stood at 6.9% of the total loan book at approximately Rs. 790 crores. This book has registered Y-o-Y growth of 23.6%. This loan book comprises largely of housing finance, small ticket loan against properties, and education institutions lending for brownfield expansion of K12 schools, and a cross-sell of loan against property to some of our IWS clients.

Moving on to asset quality:

The gross NPA ratio of the lending business is at 1.69%, net NPA is at 1.13%, and our SMA 2 stands at 2.86% as of September 30, 2020. As the decision of the Honorable Supreme Court is pending, we have not considered a few accounts as NPA. Had those accounts been considered as NPA, our gross NPA would have been 2.13%, our net NPA would have been 1.43%, and our SMA 2 would have been lower at 2.42% as of September 30, 2020.

Moving on to leverage and liabilities:

On a consolidated basis, our gross debt-to-equity stood at 1.20x for September 30, 2020 and on a net basis, adjusting for the free cash and cash equivalents on balance sheet, it stood at 0.89x. During the half year ended 2020, we have raised Rs. 952 crores through long-term borrowings. We have additional sanctions in place for over Rs. 1,000 crores, which we hope to draw down this quarter. In addition, we concluded a QIP issuance of Rs. 770 crores in June 2020. Our borrowing mix comprises of 83% from long-term sources, 17% from short-term sources, as compared to 90% and 10% respectively for June 2020.

Now, I will take you through a brief update on the half year performance for each of the Group's business verticals:

We start with the IWS segment:

The segment posted revenues of Rs. 696 crores, with a profit before tax of Rs. 177 crores. The business contributed approximately 42% to our Group's PBT. PAT for this segment for the six months increased to Rs. 136 crores, an increase of approximately 10%. The assets under advisory for our wealth management business stood at Rs. 54,015 crores, excluding custody assets. The equity component increased by 18.4% Y-o-Y to Rs. 16,297 crores. In addition, the AUA of our newly commenced Elite Wealth business stands at approximately Rs. 265 crores. The loan book for the IWS segment is at Rs. 3,861 crores, down by 28% Y-o-Y. The gross debt-to-equity for IWS segment is at 1.30x, and the net debt-to-equity is approximately at 0.83x for the same period. During the quarter we disbursed Rs. 21,469 crore towards IPO funding.

Coming to the Mortgage lending segment:

This segment had revenues of Rs.590 crores with a PBT of Rs. 205 crore. The business contributed 48.5% to our group’s PBT. PAT from this segment stood at Rs. 69 crore. Our loan book stood at Rs. 7,526 crore which is a decrease of 9.4% YoY. The gross debt / equity for

Mortgage Lending segment stood at 1.30x and net debt / equity stood at 1.03x for the same period.

Coming to the distressed credit business:

Our AUM reduced by approximately 19% Y-o-Y to Rs. 11,429 crores. JM Financial ARCs' contribution stood at approximately Rs. 3,244 crores, which is an increase of 4.4% Y-o-Y. The segment had revenues of Rs. 183 crores with a profit before tax of Rs. 32 crores. The business contributed 7.4% to our Group's PBT. PAT from this segment de-grew to Rs.16 crores. The gross debt equity for the distressed credit segment is at 1.59x and the net debt to equity is at 1.55x.

Moving to the asset management business, comprising of our mutual fund business. The segment had revenues of Rs. 14 crores with a loss before tax of Rs. 5 crores, loss after tax is at Rs. 1 crore. The average quarterly AUM of the mutual funds is at Rs. 4,182 crores, comprising of Rs. 905 crores in equity schemes and Rs. 3,277 crores in debt scheme.

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

Manish Sheth: Thank you, Vishal. Good evening, everybody. Before I present the financial information, 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 and completeness of this expectation cannot be guaranteed.

Now, let me quickly take you through Group's results, which we announced yesterday and are available on our website.

In Q2FY 2021, our revenue decreased by 5.6% Y-o-Y to Rs. 803 crores from Rs. 851 crore. The Q2FY 2021 PBT is at Rs. 240 crores, which is a decline of 11.8% Y-o-Y. Our Q2FY 2021 PAT increased by 7.3% by Y-o-Y, from Rs. 130 crores to Rs. 139 crores.

With regard to the half year numbers, the gross revenue is at Rs. 1,495 crores, and a net consolidated profit is at Rs. 233 crores. This represents EPS of 2.56 versus 3.06 for the same period last year. As on September 30, 2020, the net worth is at Rs. 6,568 crores, which is a book value of approximately Rs. 69 per share.

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. We will now begin the question and answer session. The first question is from the line of Dhruvesh Sanghvi from Prospero. Please go ahead.

Dhruvesh Sanghvi: My question is related to the overall strategy of the business going ahead. Considering the last three years, we were doing very well on the mortgage lending and the lending which was predominantly mortgage lending. What are your thoughts on how the business will shape up in terms of stability of the book currently, and potentially some growth coming on that?

The second, related to that aspect is, again, on the ARC, because we are degrowing our ARC business as well, may be because some assets might be maturing or some thoughts on that. And where are we heading there?

Third would be on the securities side. Post-COVID, nearly 70 lakhs-80 lakhs accounts have opened in the industry. How has JM been able to capture? Because I believe even the online account opening process was not active for the first half of the post COVID period, has it been solved? And are we looking to expand the retail franchisee or what is the way we should look at it? And when we say the wealth management and the Elite Wealth management, what is the broader difference? And how are we doing versus competition in your opinion? Thank you.

Vishal Kampani: Sure. That question is like a Bible, it includes everything. So let me attempt that with the strategy. So, nothing really has changed dramatically in our strategy. If you look at our businesses, we are basically capital markets and real-estate heavy. And I think we will continue to be that way. We see a lot of long-term growth prospects in this space, and I think we will continue to grow.

Coming to your questions specifically on mortgage lending. I think that will continue to be a mainstay business for us. We have seen challenging times post demonetization, post IL&FS, and now with COVID. And I think after very challenging time, we have only emerged stronger. And I think we are seeing some very good green shoots in the sector post-COVID, in the last two months or three months, there has been an exceptional demand and very strong demand for real-estate, for properties, especially in the residential housing side. We expect this festival season to be very strong. And to give you a data point, I think our escrow collections for the month of September are already at 88% of pre-COVID levels, and we expect them by December or January to be at 100% of pre-COVID levels, if the current sales momentum has to continue. So I think it's only a matter of time, before which we will restart growing our wholesale mortgage business.

On the retail mortgage business, that book has grown almost 23.6% Y-o-Y. It would have grown more, but we lost the June quarter completely because of COVID and the lockdowns. So it was almost impossible to operate. Without that, we would have grown almost 35% to 40%. And I think we will continue to maintain that growth rate. I think on the retail housing side, we will grow at 35% to 40% for the next three years, year-on-year. So the mortgage lending businesses is a growth business for us. It's just about waiting for the right time to push the wholesale business.

As I also mentioned earlier in my opening remarks that net debt-to-equity now for our mortgage lending business is at 0.89x. So we are in a very strong position and we are expecting a huge amount of repayments and prepayments even this coming quarter. And I think our balance sheet will be in a completely envious and very strong position by the end of this coming quarter. And we will hopefully start looking for growth and new transactions starting calendar year 2021.

Coming to the ARC business, that is a tricky one. I must first report that we concluded a major resolution and we have received over Rs. 500 crores plus of cash yesterday, one of the key accounts, a steel company got resolved and got bought by JSW Steel. It was in the news as well. So which is good news. Even the activity at the courts has increased dramatically and, therefore, we are hoping for much higher cash flow in these coming six months compared to the first six months of the year, where we had complete operational inflexibility with the courts being shut and many of the hearings, even when they started, were more virtual in nature. Some of them are still virtual in nature, but at least we are seeing good momentum and good activity. And as I said, we have got Rs. 500 crores plus yesterday in our bank account from a major resolution.

Dhruvesh Sanghvi: Hearty congrats on that.

Vishal Kampani: Thank you. It's all thanks to the team. So with that, I think we are hoping for some more resolutions over the next six months. And I think we will still, for the entire year, this entire financial year, be focused only on resolutions. Because when the economy goes through such a heavy slowdown, your valuations can get hit very hard and your cash flows in a distressed asset business can get hit very hard. So we are completely focused on the asset resolution side and we will look to add new assets only next year. We did see some ray of light, some opportunity to add assets because of the COVID-19. But with the one-time restructuring, it's not going to happen, I mean, everything is going to get pushed out by at least two years. So I think that gives us more time, again, to focus on resolution. And maybe next year, sometime in the first quarter of next financial year, we will rework our business plan on how we need to grow, and which areas do we need to grow.

Second, see from an economy perspective and a distressed asset perspective, the economy, not just India but the global economy is going to go through a huge substitution effect, right. So what happens is people’s choices change when they go through a public health crisis like this. And when your choices change, demand for a lot of products change. And when demand for a lot of products change, then there are sectors which may not even exist or will find it very difficult to exist over the next year to two years. And there will be other sectors which will tend to do very well. So it’s difficult for us at this point in time to be able to point out to what is the right valuation at which we should be able to buy an asset to conclude a transaction.

You may, for example, jump in and find a hotel very attractive and you may go buy the hotel at a distressed value. But if there is a second wave or a third wave and the hotel still don't open for a year or two years or three years, right, then you are a sitting duck with that asset, even though you bought it at a fairly attractive price, because you are not going to generate cash flow from it. So therefore, we want to go through and see the substitution effect. And I think we will be in a better position to answer when we start growing ARC business sometime next year. Also, we had a stated objective that we don't want to have high leverage in our ARC business because of the delays we have faced from NCLT as well as other resolutions. Interest costs have hurt us a lot in terms of our profitability. And therefore, we are going to incrementally from next year grow this business through AIFs, and not grow it necessarily through our ARC balance sheet. So that is another important objective for us.

Moving on to your question on the securities side of the business, I think the securities side is seeing tremendous momentum. You are right in pointing out that we are a very strong HNI player and we do our retail business through franchisees. Again, we want to grow our franchisees, but we literally lost out the June quarter because of COVID. But we are back on track. And our stated objective is to double our franchisee network over the next two years, and I am fairly confident that team will achieve that. And most of our online account opening as well as some of the other issues that we were facing earlier during COVID have been ironed out. And we look forward to growing our retail business more aggressively, which we could not do in the beginning part of this financial year.

The wealth management business has performed very well. They have grown their assets quite substantially, despite almost doubling the headcount in the last year to 18 months, they have still managed to be profitable for the last six months, and nicely profitable. And we will continue focusing on integrating the wealth management business more and more into our investment bank and our institutional platforms, both on the equity as well as the debt side. And the integration is proving to be of tremendous benefit to all those respective divisions. Our Elite Wealth Management is basically a product, it's a strategy which is for the Elite Wealth customers. And the way I would define that is, basically customers who have less than Rs. 100 crores of income to be disposed or to be invested in capital market assets. So above Rs. 100 crores is what our wealth management will target, and below Rs. 100 crores is what Elite Wealth management will target. So that is the fine differentiation between the two. They are two separate teams, wealth management is headquartered in Bombay, and Elite Wealth Management is headquartered in Bangalore. Thanks.

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

Kunal Shah: So first, particularly on this entire real-estate portfolio. So you highlighted in terms of the pro-forma- GNPA. But how are we looking at it maybe post the lifting of the moratorium? You said in terms of the escrow accounts, 88-odd percent. But what is the kind of restructuring which we might see? And how do we expect the collection efficiency to pan out, particularly on the developer segment?

Vishal Kampani: Yes. So our collection efficiency today has moved up to around 80% - 81%, which is a very healthy sign. I think with the revised number post the Supreme Court judgement, the number I gave you on the gross NPA side, I think we would have sort of peaked out at a gross NPA of 2.13% as of September loan book. I am not hoping to have higher absolute gross NPA. And I will explain to you where this comes from. Even our SMA 2 I think will peak out at roughly 2.5% to 3% of the loan book as of September 30. So we don't anticipate that our portfolio at risk will cross 5%. And I don't see as of now, not a single account in real estate that we have will go through ha restructuring, we will not go through OTR, the one-time restructuring, which is the RBI scheme. But what will happen, we anticipate approximately between say 18% to 22% of our real estate portfolio to go through DCCO. Roughly 10% has already been done as we speak today, and we anticipate anywhere between another 8% to 12% to get done before 31st of December.

This approximately gives these accounts roughly around 18 months to two year window to be able to repay their principal. And we think that is a substantial time.

And subsequently, we don't see any further need for restructuring of any of those assets. Our average asset cover for these restructured assets will continue to be in excess of 1.6x. So it's a pretty healthy asset cover considering the impact of COVID. And we had made these calculations through an AQR as well as a COVID test done for March 31st numbers. And things have substantially improved for the sector as well as our portfolio in the months of July, August and September, as well as October. So if this were to continue, and we were to revisit some of those cover assumptions, I will not be surprised if the 1.6x cover even on the restructured portfolio moves up to 1.8x, or in some cases to even 2x.

So I think we have clearly peaked out. We are very focused, as I said, this quarter, again, ongoing through all of the DCCO with our accounts and making sure our portfolio is on track. Last four and a half months, we have disbursed almost Rs. 100 crores in construction finance and I think that speed will increase. We were ready to disburse more but purely because of construction challenges earlier, specifically in June and July, it was difficult to deploy the money, because we didn't have workers and approvals were coming a bit delayed. And all of that is now getting streamlined. So we expect the disbursement of our construction finance purely on existing projects to pick up.

And as I said earlier, Kunal, we are expecting a lot of repayment this quarter. We have already got, as I said, more than Rs. 500 crores in ARC yesterday, we are expecting over Rs. 1,500 crores of repayment/prepayments in the next 30 days in our wholesale book. So, we will be sitting on a high cash position. And we will let this coming quarter pass and I think if things are looking more stable, I think we are back to growth on the lending business starting next quarter.

Kunal Shah: Sure. This is helpful. And in terms of the nature of this portfolio, which is under DCCO, this 18% to 22%, what would be the nature and would this be particularly concentrated in Mumbai and NCR? We saw some reductions out there in the portfolio in Mumbai and NCR, and we are growing in Bangalore and Chennai. So how would you evaluate maybe some light in terms of the nature? And would there be any risk, maybe further extending or giving them more timeframe, do we see this emerging later on?

Vishal Kampani: Yes, so let me answer this question with a little bit of more data. So today, if you were to see how our portfolio is split, so roughly 50.7% of our real-estate portfolio is in the western region, 35% of our portfolio is in the southern region, 5.2% is in east, and 9.1% is NCR which is north. And in that 50.7%, Mumbai is almost 60% of the western region share or 31.3% of the overall portfolio. And if you ask me, six months ago, my biggest worry was Mumbai. But I am not as worried about it. And one of the reasons I want to tell you is that the current state government as well as the regulatory authorities are quite supportive to help developers, they have reduced stamp duty, they are reducing some premiums. And once all of these things go through, there is going to be a significant amount of relief which is going to be given to Mumbai based developers. Also, I think, finally, Mumbai based builders have realized that they can't keep holding prices forever and one of the reasons, frankly, why sales have been very good is because most of the Mumbai based developers have shown flexibility on price. So I am not as concerned about it.

The DCCO will be quite widespread. There will be, you know, some cases, almost in every city. But I think, primarily it would be Mumbai. Gitanjali, you want to give more details on how the DCCO is going to be split approximately?

Gitanjali Mirchandani: Hi, Kunal. So quickly, like Vishal said, it is not really concentrated to one particular geography. But given that, most of our Mumbai portfolio are projects under construction, and that is where we can actually use the DCCO benefit or give the DCCO benefit to those projects. So to answer the question of concentration, we have given the benefits of the DCCO extension to NCR and to some projects in Chennai as well. Anything specific if you would need, but this is broadly how it is split.

Vishal Kampani: And again, Kunal, I don't think we would specifically look to increase some geography or decrease some geography. But yes, we are seeing a tremendous incremental demand. So as I said, we are not specifically currently looking to increase any geography, but we are seeing good quality projects and some good demand for money coming from Bangalore as well as Hyderabad, and there are some interesting projects in NCR. What we would look to do is, I don't think we will be in a rush to increase Mumbai, I think we will hold on to Mumbai, Mumbai is already one-third of our portfolio. So yes, you are right in saying that there will be probably further increase in Bangalore in certain areas, but that's because we are seeing good projects that we can underwrite at good rates. It's got nothing to do with a pre-planned strategy to increase those areas.

Kunal Shah: Sure. And just last one on ARC. So, this quarter, there was no provisioning, no doubt there is visibility in terms of resolving the resolution which has happened just recently. But do we see any risk of a higher provisioning due to delayed resolution which would take place, particularly in the ARC side which we have not seen in Q2?

Vishal Kampani: Yes, that's a good question. So we will evaluate that more closely towards February and March. As of now, we feel that we are well covered because we had taken a lot of provisioning for March 31, 2020, on the ARC side. And the management team, in fact, is expecting some amount of write-back in few of the cases where provisions were taken. But you are right in your assessment, we will take that call only in February and March, depending on the state of the economy and where we are seeing our various projects in terms of where they are in, in the stage of resolution. Having said that, do I expect it to be a big number? No, I don't expect it to be a big number. I don't think it will even be a meaningful number like we did for March 31, 2020.

Also what happens is, in many of the ARC assets, our fees is a priority, right. So it doesn't actually hurt us that much, because even if it's delayed, some amount is crept back in terms of fees, not everything, but some amount is crept back. So we will have to see. We only have one situation which we are concerned about, is the Unitech case in the Supreme Court. And because the case is in Supreme Court, I am not at liberty to discuss more about it. But that is the only one case where we may see some amount of provisioning, it depends on the outcome of the judgement, which we will await as soon as the hearings are done. But again, it's not going to be a significant number, but it will be the most significant number of the total provision we will make, if we were to make one in the next six months.

Anil Bhatia: Vishal, if I may add there. Again, there we have a priority loan and a fees which have a priority of repayment in the waterfall mechanism. So there would be a delayed recovery, but eventually even if you provide there would be write-back of provision subsequently on that.

Kunal Shah: Okay. And any other assets in advanced stage of resolution, like what we saw yesterday or maybe just 10 days back on Asian Colours so are we seeing any more names which are there, which have been pending?

Vishal Kampani: Yes, so there are two resolutions. We have one pharma asset which is at an advanced stage, and we have one large textile asset which is at an advanced stage of restructuring. We are hoping to complete both by March 31, 2021. Fingers crossed.

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

Ritika Dua: Sir, first, just mostly the asset quality question has been answered. Some clarifications, so firstly on ARC. For Q2 FY 2021, sir, how do we leave this particular bit? Asset acquired by ARC is Rs. 10 crores and JM's acquisition is Rs. 271 crores.

Vishal Kampani: Yes. Because we increased our contribution in existing assets because we could buy them at good prices.

Ritika Dua: Okay. Because you have given an abstract which says that sold by investors.

Vishal Kampani: Yes, because we have made a statement that we are not going to buy new assets, so we wanted to make it very clear, this is only increasing our old and existing positions.

Ritika Dua: Understood. And sir, on the resolution which happened recently, how has been the IRRs there?

Vishal Kampani: Anil, you want to take that question? Though the resolution was significantly delayed, but you can give a picture on the IRR.

Anil Bhatia: I think we never talk about individual IRRs of individual cases, okay. All I would say is that the IRRs for this case also will be in line with our standard thumb rule of all IRRs being in the range of (+20%). And our average IRR even today is about 28%, 29% of all the resolved cases. Individual IRR cases, we generally don't talk about.

Ritika Dua: No problems, sir. Sir, on the wealth management, the quarter-on-quarter addition to the AUM has been very good. So just want to understand more colour on that.

Vishal Kampani: Sure. Ajay Mishra is on the call. Ajay, you want to give a colour on the AUM movement, and also the breakup of the AUM movement?

Ajay Mishra: Sure, Vishal. Thank you. So, at wealth management, the AUA has increased from about, say, 13.5% quarter-on-quarter from Rs. 47,579 crore odd to about Rs. 54,015 crores. And we have grown across all the asset classes. So in equities, and in alternative assets we have grown about close to 35%. In direct debt, wherein we sell direct debt, mutual funds, etc., we have grown close to about 6%. And in liquid assets we have grown about close to 10%. So this comprises of about 13.5% overall growth. Also, what has really helped us is our overall integration within the group as IWS. So the synergies in terms of differentiation and bringing in best book ideas within the group on product ideation, client referencing really works well.

Ritika Dua: Understood, sir. Sir, maybe some more colour would be helpful, because this is a quite a strong performance, I know we were around Rs. 47,000 crores even maybe third quarter of FY 2020. But then, Rs. 6,400 crores quarter-on-quarter, I mean, is the strategy working very well here and some colour on maybe how granular is this growth?

Vishal Kampani: Ritika, also, I think, frankly, what's also happened is, a lot of the business that should have got booked in April, May and June actually happened in July, August and September because of the COVID. So, there was a lot of effort which was put in, and some part of that actually paid off sort of later. But our focus has been on basically adding equity assets. And a large part of the addition has been in equity, which we are very happy about. So, if I can give you a more sort of granular mix, I think in the Rs. 54,015 crores, our total equity assets are approximately, which we have added, the new assets added are almost Rs. 3,900 crores to Rs. 4,000 crores in equities, and debt is roughly Rs. 2,200 crores, and the rest is an alternate asset. So, I think, you will see some quarters where you will see flattish performance in some quarters where the team comes together, and they actually deliver a lot of AUM increase. But as long as on a half year basis our trajectory is strong, I am very happy. I am not really pushing the business on Q-o-Q because we want to win the right business, we want to win profitable, large clients on integrated fashion, and that is our strategy

Ritika Dua: Thank you. Sir one more, and maybe I will come back in the queue after that because I have a couple of more to ask. On the wholesale business, you had already shared even in the last quarter that you will do this AQR on your book, and September would really help you evaluate the book better. And you will call the shot on the promoter, wherever you think you need to, etc. So, that time the number which would be eligible for DCCO was much higher. And the number which is going right now is a little lower than that. Secondly, a clarification on this DCCO number, should we see this 18% to 20% as a percentage of Rs. 7,500 crores? Or obviously, because the DCCO extension will only be given to your CS book, so is this 18% to 20% of Rs. 7,500 crores or 18% to 20% of…

Vishal Kampani: Yes. So, our construction finance book is roughly largest part of our book, is roughly 75% to 80% of our book. So DCCO is on our real estate total book, it's 20% of the total book. So it will be obviously larger as part of the construction under construction book. That means 80% of our book is able to service interest. So if you just do the math, right, it's really 20% of projects which have actually faced delay in terms of construction or some approvals, they are just naturally going through DCCO. And the security covers are very strong. Yes, in that 20%, there could be one or two or three projects which may require some more funding, additional funding from what we have planned, which we will provide for, our balance sheet strength allows us to take care of those issues. But on the whole, I think the DCCO benefit will really allow those projects to do well and actually be able to construct complete and repay all our loans.

Ritika Dua: And if I may squeeze, on the credit cost, how do you really see for the wholesale book? So you have provided that recently over the last two quarters, but then still looking at where your assessment of the stress book is, which roughly you are saying will not cross 5%.

Vishal Kampani: Yes, I think we have peaked out, I personally think we have peaked out. The only caveat I would put, which is beyond my control is, again, a public health disaster, further lockdowns, a big another Corona wave, you know what's going on in Europe and the US, right. So, now even in Europe, there are some parts of Europe which are doing okay, Germany is okay, but France is doing very poorly. So, see, the COVID scenario is still pretty scary, right? So therefore, I think waiting another quarter and taking a call next quarter, strengthening our balance sheet further, being completely future-ready for the next decade is something we are focused on. And I think you can clearly see that in our numbers.

Ritika Dua: Sorry, just maybe, I am pushing it again. So on the current stress that you see, which you are assuming that should not move up from here on, are the current provisioning enough? Or would you think that even for the current you might want to maybe still

Vishal Kampani: So, let me give you a number. I think to be on the safe side, we would probably do another Rs. 50 crores to Rs. 55 crores of provisioning this quarter, and maybe another Rs. 50 crores to Rs. 55 crores of provisioning in the quarter after that. And that would be max.

Moderator: Thank you. The next question is from the line of Anita Rangan from HSBC Asset Management. Please go ahead.

Anita Rangan: My first question is from the IWS segment. And you did touch upon the fact that the loan book has grown reasonably well. But the gross revenue also, like, quarter-on-quarter has seen a significant jump of about 40%. Can you give some clarity on that? The reason why I am also asking is that, if you compare the loan book, like September of last year versus September of this year, there is a de-growth in the loan book.

Vishal Kampani: Our loan book has not grown, in fact, our loan book has de-grown.

Anita Rangan: But from Q1 to Q2 I am seeing like a jump, like Rs. 3,405 crores to Rs. 3,861 course.

Vishal Kampani: Yes, but that's not significant. I think we have had an absolutely, I would say, a fantastic performance in our IWS business. And the good part about the performance is that it's been heavily led by fee business. And the fee business, which is unlinked, totally unlinked to loans. And I think that is something which is very impressive. So if you see year-on-year for the last almost two years, our loan book on the capital market and corporate financing side has come down. And at least on the corporate and promoter lending side, we have cautiously brought it down. So we did a lot of transactions, so before COVID, after IL&FS, for that 18 month period, we did a lot of short-term funding bridge financing transactions to keep profitability high. But we haven't even done those in the last six months. And yet, the profitability from our IWS business has been very strong. And this has come partly from the investments that we have made. Once IL&FS struck us, we were one of the only firms in the street that was adding people and adding people aggressively in IWS across most of our businesses in IWS. And you are seeing the payoff from that in the last two quarters.

And in addition to that, the markets have been very strong, right? So the capital markets have been very strong, the M&A business has been very strong, the wealth management has been very strong, the equity broking has been extremely strong. So I will give you some numbers which will put in perspective. So if you just go back to H1 FY 2020, so talking about September 30, FY 2020 last year, our interest income was almost 54% of our IWS business, and 46% was our fee business. And if you look at the quarter ended September 30, 2020, our interest income is 36% and our fees and other income is 64%. So that is a very powerful number. So imagine a scenario now whenever we have seen that we have increased our loan book, we have even got higher fee revenue. So, a lot of things have happened in IWS. As I said, lots of investment in people, lots of integration between the businesses which was missing. And third, we are looking to now grow the loan book from next year, even on the IWS business. So if we grow the loan book, and this momentum continues, I think the profit growth numbers can be very strong over the next year to two years.

Anita Rangan: So you say that this kind of mix between like a funding fee to be kind of a sustainable trend?

Vishal Kampani: Yes, yes. So if you go back to many of my calls over the last three, four years, I have always maintained that we would ideally like almost 50% of our revenues and profits to come from IWS, and the remaining from mortgage lending and others.

Anita Rangan: Okay. My second question is on the mortgage lending piece. The presentation slide actually says a collection efficiency of 96% post moratorium, and in the call, you mentioned like 80% to 81%.

Vishal Kampani: Yes, so that must be interest. And the principal must be lower, or the blended rate could be lower.

Manish Sheth: Sorry, if I can answer that question. That must be for retail mortgage, which is at 96% collection efficiency.

Vishal Kampani: That's right, retail is at 96%. But even the wholesale also the interest collection is obviously going to be higher than principal.

Anita Rangan: All right, okay. Just one small thing like, there also between Q1 and Q2 there is a slight increase in the loan book, is it driven just by disbursements which you had to like make, or is it like strategically…

Vishal Kampani: Yes, those would be construction finance disbursements and this quarter would be also interest capitalized of some bit. We haven't added any new accounts, just to be clear. So there have been no new loan accounts in the last six months.

Anita Rangan: Okay. All right. And I have a question on the liability side. Overall, while your cash is still like very fairly robust and you have said that you are getting like incremental cash also this quarter. Just between June and September, there is like a slight decrease in the overall cash and cash equivalents. Now, strategically, are you like going to reduce your cash component, because that's like a negative carry in your book. Have you started thinking on those lines? And are you seeing some ease in like funding from the overall system, including banks and other components of the financial system?

Vishal Kampani: Yes, that's a good question. So, one reason for our cash and cash equivalents coming down is we actually utilize the cash and we reduced our CP borrowing, and in many cases, we replaced that borrowing with group money. Second is, our hit because of negative carry is almost Rs. 180 crores this year, which is a big hit because of the substantial cash that we are holding, compared to what we were holding pre-IL&FS levels. I think we will gradually, over the next 12 months, reduce our cash levels. This quarter may be an exception, because we are expecting a lot of prepayments, as I said, and we will try and buyback our debt wherever possible. Even the ARC with the cash flow they have received yesterday is going to try and buyback their debt, the same thing will be true even for our NBFCs. Failing which, because now nobody wants to give our debt back to us, right, people were dying to give their debt back to us in March, April, and today nobody wants to give the debt back to us. But wherever we can, wherever it's not expensive for us in terms of prepayment penalties, etc., we will buy it back. But I think, hopefully from January quarter, once we start looking at disbursements and the economy is sort of a lot more stable, Gradually, over the calendar year 2021, you will see our cash levels go down.

Moderator: Thank you. The next question is from the line of Antriksha Banerjee from ICICI Prudential Asset Management. Please go ahead.

Antriksha Banerjee: Sir, the first question I have is on the equity that you had raised a couple of months back. What is your status of the deployment of that? And I mean, from what we were thinking initially of some portion of it being deployed in the business, because of the current situation has there been any change to your plans? And how do you intend to deploy it?

Vishal Kampani: That's a great question. So, right now there is no deployment of the cash. That cash just sits in our treasury. It was raised purely as a COVID buffer and uncertainties surrounding the real-estate lending business as well as the ARC business at that point in time. As we have said, that would utilize almost half of that for ARC and half of that for real-estate. Fortunately, at least for real-estate, we are very sure right now that they will not need the cash. And if the ARC recoveries continue to be strong over this coming quarter and next quarter, then I think this financial year they would also not require the cash, and this will stay as treasury in our holding company.

Antriksha Banerjee: Okay. So in that case, given the situation at present, I am sure a lot of interesting offers would be coming up and enabling growth, are you evaluating those or is that a no, no?

Vishal Kampani: No, we are evaluating. We saw something in the capital markets and broking space, we made an offer as the seller was keen, but the sellers later changed their mind. We are looking at a couple of things even in the retail lending space and we are hoping that we should be able to close something before 31st of March.

Antriksha Banerjee: And the last point I have is, the DCCO accounts that you were restructuring, or whatever you call it, these were all standard until COVID hit, right? There was no problem in any of these accounts before COVID?

Vishal Kampani: That's right.

Antriksha Banerjee: Okay. And the other than the mortgage piece, I mean, including retail mortgage piece, there was no impact of moratorium or any delayed repayments in the rest of the lending business?

Vishal Kampani: There is one space where we are concerned. We have education loans portfolio, which is a very granular retail portfolio, which is roughly loans of Rs. 50 lakhs to around Rs. 2.5 crores which we have made to schools. Most of these schools are dominated in the south and west of the country. So we are in Telangana, we are in Tamil Nadu, we are in Andhra Pradesh, we are in Karnataka, we are in Maharashtra and Rajasthan. And we are hoping for these schools to restart. It's almost a Rs. 200-crore plus portfolio. It has so far performed well. In the market it's one of the best performing portfolios, again, because we have been very conservative. And in many of those cities and many of those cases, schools have restarted. But again, we need to watch this for December as well as for March. It's not a very large portfolio, but that is something I would like to mention.

Antriksha Banerjee: Okay. But as of now it's not part of your SMA or GNPA?

Vishal Kampani: No, it is not.

Moderator: Thanks. The next question is from the line of Ritika Dua from Elara. Please go ahead.

Ritika Dua: Sir, this question was not on my mind, but then since you have mentioned the retail lending acquisition. Given that our retail pieces are still growing, and they are relatively smaller size, how large can this acquisition? I mean, what is the strategy in terms of, like, how large would you want to go for inorganic kind of opportunities?

Vishal Kampani: So we would like to buy something which can double our book in less than one year.

Ritika Dua: And this would be largely housing?

Vishal Kampani: Yes, housing and housing-related, like school infra finance, same spaces we are in, small ticket LAP as well as housing.

Moderator: Thank you very much. Due to time constraint, we will take that as the last question. I would now like to hand the conference back to Mr. Vishal Kampani for closing comments.

Vishal Kampani: Thank you very much. If you all have any further questions, we are all available, you all can contact us and we will be glad to engage. Thank you again, everyone, for your valuable time.

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