JM Financial Limited Q1FY25

Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Earnings Conference Call for 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 star then zero on your touchtone phone. Kindly note 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. 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 Earnings Conference Call to discuss our financial results for the first quarter ended June 2024. We have uploaded our results, presentation and press release on the website and stock exchanges. I hope you have had a chance to go through the same.

On the call, we also have Mr. Chirag Negandhi, Managing Director, JM Financial Limited; Ms. Sonia Dasgupta, Managing Director and CEO of Investment Banking, JM Financial Limited; Mr. Manish Sheth, MD and CEO of JM Financial Home Loans; and Nishit Shah, our Group CFO.

I will give a few introductory points and then I'll hand over the call to Nishit to take you through the numbers. I've already updated most of you in our May 2024 call, on a few of the strategic initiatives we have taken in the Group, the first being on a pivot in our wholesale credit businesses moving from on-balance sheet lending and on-balance sheet loan book driven business to more of an off-balance sheet syndication business across asset classes like real estate, distressed credit, corporate credit as well as for promoter credit.

And on the focused businesses, we will continue to cover the entire breadth of wealth management, asset management, capital markets, corporate advisory and our investments in these businesses will continue to increase over a period of time. We are seeing tremendous traction in these businesses. And we're also very pleased with the amount of integration that is happening across these different business units and the opportunities these units are throwing up. There are also very strong tailwinds in our affordable home loans business. And again, we will continue investing in both physical infrastructure and technology to grow that business larger.

I'm also happy to report that the assets under management of our wealth management and distribution business has crossed a very important milestone for us in the group of INR1 lakh crores and I'm also extremely pleased to say that the AUM of our mutual fund business has achieved another very important milestone of INR10,000 crores, of which almost INR7,500 crores is in equity.

We've also made a very important strategic announcement a month ago on what we are doing with our stake in JM Financial Credit Solutions. As most of you know, JM Financial Credit

Solutions is a business we set up in 2014, along with a fund led by Mr. Vikram Pandit, this is an entity which is completely focused on our wholesale lending business across real estate and corporate credit. And in this entity, the investors had a fund life of 10 years, which is basically ending in November 2024. And we have been in discussions with them for the last couple of months. And finally, we concluded the transaction where JM Financial Limited will be increasing its stake to up to 95.6% in this company by purchasing ~49% of the investors' stake.

The stake will be purchased in tranches. Currently, the investors have only agreed to sell 43%. And for that, our commitment will be INR1,282 crores. So the transaction will, of course, need regulatory approvals. Our teams are working to get the approvals, and we are hopeful that we should be able to conclude this purchase before November 2024.

And also JM Financial Credit Solutions is purchasing stake in JM Financial ARC which is subject to regulatory approvals. This would be a purchase of almost 72% and thereby transferring all of our interest in the JM Financial ARC under JM Financial Credit Solutions. So this is an important update on what we are doing with JM Financial Credit Solutions. And we have surplus cash in the Group to be able to easily conclude this transaction. And post concluding this transaction, of course, our earnings consolidation from the profits of JM Financial Credit Solutions will increase from 47% to almost 96%.

So with this brief update, I will now hand over to Nishit to take you through the numbers. And after that, we can address Q&A. If you see our presentation that we have put up for this quarter, we have highlighted on Page 4, 5, 6 and 7, some data and some quick thoughts on our strategy. I would urge all of you to look at these four pages.

An important reason to put up these pages is also that we are looking at our businesses, a bit differently from the way we modelled them for the last 10 years. And the new model will focus on four different verticals, the first being corporate advisory and capital markets, the second being wealth and asset management, the third, private credit syndication and the fourth, the affordable home loans business. This simplifies our structure. It also adds a lot of focus on management in terms of deliverables over the next couple of years.

And the team here, consisting of Chirag, Sonia and Manish, will be happy to answer more questions along with me, once Nishit takes you all through the numbers. Thank you.

Nishit Shah: Thank you, Vishal. During the quarter ended June 2024, consolidated revenues increased by 1% and stood at INR1,094 crores. Profit after tax after non-controlling interest for the same period increased by 3% year-on-year from INR166 crores to INR171 crores. The consolidated networth, excluding non-controlling interest stood at INR8,612 crores, which translates into a book value of INR90.1 per share.

Retail mortgage loan book stood at INR3,267 crores compared to INR2,033 crores for the same period last year, an increase of 61% year-on-year. The rest of the loan book has declined from INR13,858 crores to INR8,666 crores during the quarter ended June 30, 2024, a decline of 37% year-on-year. The SEBI margin financing loan book grew more than 2x during this period and stood at INR1,806 crores as of June 30, 2024. On a consolidated basis, our debt to equity stood at 1.4x, and cash and cash equivalents stood at approximately INR4,000 crores.

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

Moderator: The first question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: Vishal, one question to you. I just seeing that we have always operated with very good capital adequacy right from, say, 2014 when we started this NBFC business and now once we shut this down or once we run this down, we'll be sitting with even more capital. So just any thoughts. I heard your last call where we said we will be doing AIFs and private credit. But still the quantum of capital that is going to be released is going to be quite huge. And any thoughts on will we accelerate more on the investment banking, institutional equities, mutual fund, wealth those businesses? That's my first question.

Vishal Kampani: Sure. So let me answer the question on capital and then I hand it over to Chirag and Sonia to give a brief on investment banking, institutional and wealth and all of those businesses. So yes, Digant we will generate surplus capital. But as you know, we still have debt to repay. And from a lender perspective, it is very difficult to distribute all of the cash flow until the debt comes down.

So our net debt comes down very, very quickly. If you see on Page 7 of the presentation that we have provided, it gives you a good perspective of how across our 3 entities where we will be paying down debt, what the movement of cash and cash equivalents is versus loan book is. And you can see a substantial amount of cash generation. For example, in JM Financial Products, our current cash as of June 30, 2024 is INR639 crores, which accretes in 2 years to INR2,500 crores. JM Financial Credit Solutions INR1,800 crores accretes to INR4,200 crores.

Now what happens is we still have gross debt, even though we have net cash, we have gross debt outstanding. So, I think our payouts will increase over the next 3 to 4 years, but they will dramatically increase after 2 years because at that point in time, we will not need this kind of surplus capital and also the holding of debt in these NBFCs will be comfortable enough for us to release cash.

Second, the purchase of Tranche 1 that we are making in JM Credit Solutions today is going to cost us almost INR1,282 crores. This is a very thoughtful purchase. We see a lot of long-term value in terms of the expertise that we have built in this business, and we are very confident of our pivot in terms of creating land AIFs and building an absolutely global distribution for the India credit product.

And I don't think there are many players on the street who understand financing right from loan against shares, promoter financing, corporate financing, real estate land financing, real estate structured financing all the way to distressed credit. We have seen the good cycle of that play out when we started the business from 2007 all the way to 2019 and we've also seen the bad cycle play out between 2019 to 2024. And I think we're going to bring all of that expertise together under one roof, JM Financial Credit Solutions and really build a very strong and solid business.

Second point, Digant, is that our investment bank and wealth management will throw up a lot of cash as well. And as you know, those are very capital-light businesses. Today, we are investing in digital broking as well as asset management, but those investments will stop in 2 years as each of those businesses will turn cash flow positive. And the distribution from those businesses also will accrete dramatically. So, it's about a rather 2-year consolidation phase, and that's why we've explained that whole strategy in those four pages.

Another reason to give those pages is that you can now Q-on-Q track how the old business and the old structure is reporting this year versus how the new structure is reporting, and you will have those comparable numbers with you even next year. Another thing to keep in mind is that RBI does not allow more than 50% dividend distribution of PAT from NBFCs. Once we bring leverage down, we will appeal to RBI to at least release that for us in terms of allowing us to pay more dividend. If that is allowed, then of course, the payout ratio will go up much more and much higher.

So, these are some of the thoughts. Happy to answer more questions offline, Nishit has all the numbers. But Chirag, Sonia, if you guys want to add anything on investment banking, institutional equities, wealth management, feel free to do so unless Digant, do you have any more questions.

Digant Haria: One last question, Vishal, I had. I saw the slide number 5, 6, 7, a good summary of how the next 2 years rundown will happen. Are all our customers -- everybody is aligned to the fact that this rundown will happen, and you don't expect any knee jerks in this rundown?

Vishal Kampani: No, no. So we have very carefully done due diligence on the entire book of JM Financial Credit Solutions. In fact, literally, we have gone account by account before we decided to make the purchase from Mr. Pandit. So fingers crossed, I mean barring any very bad macro event like COVID or what we saw in ILFS, I think the book is quite solid.

And JM Financial Products actually is a very liquid book. Its assets are very liquid, loan against share is anyway run down. And we have a lot of MSME and HFC assets which are very liquid and can be sold at any point in time and the promoter finance loan book anyway runs down in less than 12 to 18 months. So those are very liquid assets.

In the ARC, we've taken very heavy provisions. I don't think the incremental provisions are large. The incremental provisions are all with eight-year plus accounts. And we are seeing a lot of liquidity. In fact, we've had INR500 crores to INR600 crores of cash generation in terms of what we've resolved just in last quarter. We expect that momentum over the next 4 to 6 quarters. So these numbers, I would say you can easily take them. I mean if you were to discount them, you can discount them by 10%, but not more than that.

Digant Haria: All right. That's great, Vishal. And all the best for the second innings of JM.

Moderator: The next question is from the line of Niteen Dharmawat from Aurum Capital. Please go ahead. Mr. Niteen? Hello. Sir, the line for Mr. Niteen seems to be disconnected. The next question is from the line of Himanshu Upadhyay from BugleRock. Please go ahead.

Himanshu Upadhyay: My question was the disbursal in home finance are down by 30% Y-o-Y and 75% Q-on-Q. Can you explain the reason for it? Means, why such a significant fall in disbursal? This is on the slide under home finance business where we have given.

Vishal Kampani: Yes, Manish will take that question.

Manish Sheth: Yes. So basically, in the home finance business, April, May, are always dull months, especially because we are operating in Tier 2, Tier 3 cities. And as you know, interiors, there is a challenge in terms of water supply and majority of our home loan business is either self-construction or plot plus construction. So that gives us always, if you see the first quarter is like this only.

On top of it, we have done first assignment to one of the leading players. So ~INR100 crores we have sold out during the quarter.

Himanshu Upadhyay: Okay. So the disbursal would be INR200 crores you are saying, which is INR116 crores in Q1 FY '25 it seems?

Manish Sheth: So disbursement is INR116 crores. There was one important regulatory change, if you really have noticed by NHB and RBI that earlier what everybody used to do is a disbursement, which is we used to prepare a cheque and we were giving them the timeline of 30 to 60 days to encash the cheque until then, it was shown as disbursement. But with the regulatory change, the disbursement is to be booked only when the cheque is encashed/banked by the customer. So if I would add that, the number is around INR50 crores more than what we have seen even in this quarter.

Himanshu Upadhyay: And one more thing. In the wholesale business, have you done any deal on syndicating transactions because that is the way ahead we are seeing. And so, are we disbursing currently loans in Credit Solutions? Or have you done it in last 2 quarters? And is there any approval or structuring needs to be done for the way we are thinking about syndication approval from regulators or any place?

Vishal Kampani: Yes. So last question, we don't need any approvals from any regulator. This is a normal course of business. The answer to your first question is, yes. On the corporate side, we have a very active syndication business, which we've been running for the last almost 3 years, and it has done very well. We are extending that expertise now to real estate, distressed credit as well as promoter finance. And yes, we already have a full-fledged approval mechanism in place for syndication of loans, which is very, very similar to our credit approval process across all of these asset categories. So that is clear.

And last, yes, we are not going to close down our lending business. We are going to lend. We will have a hold in many of the syndication transactions that we do, but our concentration risk will go down dramatically. And we will keep the book very liquid. So to give you a very simple example, if you are able to originate, say, INR8,000 crores of volume in a year, if our balance sheet could keep the entire INR8,000 crores of volume going forward, our balance sheet will not keep, say, more than INR1,600 crores of volume, but we will effectively syndicate and sell down INR6,400 crores of it. So that is the concept.

In syndication business, very rarely can you do a syndication where you sell down 100% of your loans. You always have to have some balance sheet capacity to hold. And that is why there will be a portion of our liquidity which we will use to facilitate the growth of our syndication business, and that is the point we have highlighted if you see on Page 4 of the presentation that we've put up that some part of the liquidity will support the pivot to this syndication model.

Himanshu Upadhyay: And in FIF also, this means we have started doing syndication transactions in financial institution funding?

Vishal Kampani: Yes, yes. It will be across financial institutions. It will be across real estate; it will be across corporate. If I were to tell you, among the 3, the largest volume we see will be in corporate followed by real estate and followed by FIFs.

Himanshu Upadhyay: And one follow-up on this. See, earlier what we were trying to do was INR7,000 crores to INR8,000 crores of disbursal in a year, okay, Credit Solutions business, but we were finding a challenge that we were not finding so many good builders, okay, that who...

Vishal Kampani: No, no, we were finding good builders, but we were not finding good builders at our rates.

Himanshu Upadhyay: But sir, now the rates would be significantly lower? Or what would be the rates in syndication you are able to do the deals around?

Vishal Kampani: No. So, there are 2 things in the business. So one is the rates for construction finance. And second is the rates for land and the rates for approval finance. So, you have to understand that from a regulatory perspective, it is becoming challenging to do land finance and approval finance in NBFC. So that business is pivoting very, very quickly to the capital market. So, you have AIF, you have foreign funds, and you have a lot of HNI customers who are now taking a part of this business.

So there, it is going to be an AIF-led syndication model for land finance. But on the construction finance side, we will continue to support with our balance sheet, but we will syndicate down to banks and other larger NBFCs using the relationships that we have. On the corporate side, it is all promoter finance and structured finance. We do not do working capital finance and we do not do project finance. And we will not be entering those spaces. That is the domain of the banks and it's better done by banks.

Himanshu Upadhyay: And one follow-up. Historically, when we were just seeding these businesses or the Credit Solutions, the thought was that we were too dependent on capital markets, and we want to diversify into lending business so that the business becomes more stable, okay? But if I look at it, we'll be more focused on the fee income type of business, what we are trying to create into these businesses.

How dependent will be these businesses on strong capital markets? So, let's say, the Credit Solutions, if the market goes bad for 6 months or a year, will the fee income still be there? And how big would be the costs on that side. And can the fee income overcome those costs -- fixed cost, which you will be there because NIMs will not be there on the quantum of...

Vishal Kampani: No, I don't think that will be a challenge because even if you just look at -- if you go to Page 7, right? And if you just see the amount of cash we're going to generate in Credit Solutions, that number itself is upwards of INR4,000 crores in 2 years. Assuming for a second, we deploy even half of that to help our syndication business at that point in time that itself will generate a 12% to 13% yield at the minimum and just that INR2,000 crores deployment will take care of all our costs.

But see, when you talk about capital markets when -- 10 years ago, when we set up the business, it was largely equity capital markets. One is that the equity capital markets have become very, very different. I mean, the size is just humongous, the kind of products we do in equity capital markets are very different. I mean, we're a large player, for example, now in block trading. It's something we never did 10 years ago. I'm just giving you an example. So one is that the depth of the equity capital market has increased, and we are seeing lesser cyclicality in that business from the macro position India is in today.

Second, this is a private credit business with actually a hedge to our equity capital market business. So tomorrow, our equity capital markets business slows down, this business will not slow down. People will allocate more capital towards debt and other yielding products if there is a sustained slowdown in equity capital markets. We don't expect a sustained slowdown in equity capital markets, but going by your worst case, if that were to happen, even if it were to happen, this business will still be a hedge, and it will be a hedge with a lot lower risk, because when you have your sales and distribution relationships in place, then it is just about being able to originate the transactions and the origination is already present in our investment banking and our wealth management business, which the team on the call with me is rapidly building.

Himanshu Upadhyay: Okay. I have a few more queries, I'll join back in the queue.

Vishal Kampani: So you can go ahead right now, don't worry, finish your queries.

Himanshu Upadhyay: See, in the Slide 7, we have shown how the loan book will reduce, okay? So is the underlying assumption that both JM Financial Products and Credit Solutions, no new disbursal will happen. So would that be the assumptions when you are...

Vishal Kampani: That is a very good question. I can give clarity to everyone. So these numbers are based on an assumption that we cannot do any new disbursements, okay? This is very simply outstanding gross book, loan book coming down as per schedule of repayment, gross debt coming down as per schedule of repayment and therefore, the accretion and cash generation.

So, this cash that you see of INR6,500 crores being generated here by June 2026, it is our decision on how much of that cash to be distribute? how much of that cash do we invest in treasury? And how much of that cash to be used to support the syndication business. As a thumb rule, I mean, it's very hard for me to give you an exact number. You can just assume one third, one third, one third would be the plan.

Himanshu Upadhyay: Okay. And one last question. Yesterday, we said in the AGM, okay, that we -- all the employees want to have ESOP of the businesses what they are doing, okay?

Vishal Kampani: Correct.

Himanshu Upadhyay: And 3 companies are there. So, home finance, and they don't want the ESOPs of JM Financial Limited, okay? But what -- do we think that in future, you will be having three listed entities once it scales up how will that turn around because there is synergy in all these three businesses and cross-selling opportunity, what is your thought? I want more clarity there?

Vishal Kampani: Yes. So, I think let's look at the breakup of those 3 entities. There is one entity, which is JM Financial Services, which is our wealth management and broking entity. Then we have JM Financial Asset Management, which is our mutual fund and our credit AIF business; and third is JM Financial Home Loans, which is our affordable home loans business.

Now, if you look at the team and the professionals who are working in these companies, they literally have got nothing to do with the other company and they've got nothing to do with the investment banking and the institutional equities business. And to attract the right talent, we have taken a decision that we will be giving employee stock options for the teams that are focused in these businesses in their respective companies.

Today, for the next 2 to 4 years, we are only focused on growth, heads down, trying to scale these businesses, once they reach a certain amount of scale, we will take a decision on what is the best way to unlock the value created for the employees and for the shareholders of JM Financial Limited. It is a bit premature to decide today how we will do that. The obvious routes to do that is to IPO the business or to demerge the business from the parent company.

But as I said, we do not want to comment on what route we will use and how we will do it. But what we will definitely say is that we will do one of these actions for these businesses after 2 -5 years when sufficient scale and size is achieved.

Himanshu Upadhyay: Okay. And I hope we continue the quarterly call from here on.

Vishal Kampani: Once we start, we don't stop.

Moderator: The next question is a follow-up from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria: I had one question on the talent crunch or so to say, in the entire capital market business, like you just mentioned that these capital market over the last 5 years has grown so much in size. Do we find it difficult to really retain or get people in the wealth management, the AMC in those businesses? And I heard the previous participant that giving the ESOPs of the businesses where people are working, that would be one strategy to retain the talent for long term.

Vishal Kampani: Chirag will take that question.

Chirag Negandhi: Digant, Chirag Negandhi here. So, it's a great question. And I think if you talk about the industry per se, there is obviously a challenge to get the right and most appropriate talent. But you have to appreciate that a platform and a company that has been around for 50 years that is investing in growth of these businesses that has the kind of reputation that JM enjoys. It is definitely easier.

While it is easier relative to the industry for us to acquire the right talent, we are also aligning ourselves to make us at par with industry so that we are giving the right options for the teams that we bring on to be able to create wealth for them as well. So therein lies the whole idea of giving stock options in the businesses that they drive. We'd like for the employees to be aligned with us in terms of where we are building and creating value. And I think that benefits the shareholders as well.

Digant Haria: Okay. Chirag, just one more question on this, that over the last 3, 4 years, if you can just highlight how the -- how has our coverage -- the sector coverage, the client coverage increased, because the markets have become deeper -- so many new sectors like electronic manufacturing, so many new sectors have revived. So any -- like any flavour here would be...

Chirag Negandhi: Yes. Look, the coverage for us is multifold. We look at coverage both from an investment banking perspective, and there's also the wealth perspective. Then there's the institutional business as well looking at covering them.

So, you have to also appreciate that this is among the few financial institutions that have all of these businesses housed under one umbrella that allows us to really focus on the cross-sell here. So, the coverage doesn't get restricted to one aspect of the business, which allows us to work together pretty closely to be able to benefit from the coverage that each of the other divisions does.

Digant Haria: Okay. Okay. And then fair to say that we would probably be under expansion mode in all these businesses in terms of talent hiring, the investment banking, institutional equities and so on.

Chirag Negandhi: I think the way we look at this is the institutional equities and the investment banking, we continue to consolidate our leadership over there. And in the wealth and asset management and the financial services businesses that remains another high focus area for us where we want to seriously ratchet up our leadership over there as well. So one place we're consolidating, we are the existing leaders, and we'll consolidate it further. The others, we will focus on and take leadership over there as well. It's a people business. So we clearly understand that. And if we have to invest in the people, we continue.

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

Chintan Shah: Yes. So sir, firstly on this book rundown, which we are talking about. So here, can it be presumed that the rundown will largely be from the wholesale lending under the JM Financial Credit Solutions. So now by June 2026, we can presume that there will be no chunky outstanding wholesale loan accounts which would be outstanding. Can that be fair assumption to make?

Vishal Kampani: No. So if you look at Page 7, it reduces quite dramatically, but there still will be roughly INR3,000 crores to INR3,500 crores of outstanding because specifically in the real estate project finance space, we do have maturities running all the way to 2027, 2028, and in the MSME business, we do have maturities which run for the next 6 to 7 years.

So around INR3,000 crores to INR3,500 crores remain outstanding beyond June 2026. But if you look at Page 7, the gross debt of the existing businesses over there, the net cash that we have is much higher than the gross debt. So technically, for us, almost INR5,000 crores to INR6,000 crores are free cash flow for making investments to boost syndication or increase payout or just run treasury.

Chintan Shah: Sure. Sure. Understood. So -- but this is no longer a focus area that we can at least say the wholesale lending business.

Vishal Kampani: You can completely make the assumption very clearly that wholesale lending and adding assets on our book from a lending perspective, as in looking at book growth is no longer our focus. So, for all practical purposes, you can say that we have exited the real estate lending business, and we have exited the distressed credit business. We do not want these risks sitting on our balance sheet. We are extremely clear.

We will only originate these businesses to distribute to our clients in the market, which we are building sales and distribution, and we'll build that over the next 6 to 12 months. Yes, there will be a hold that we will need to have in those assets, but the hold is not going to be upwards of INR2,000 crores to INR2,500 crores in real estate and distressed credit. And on top of that, we will build AIF for land transactions, which is another core important area of focus for us. And through the land AIF not only will we fund land, we will also syndicate to our LPs larger financing for land.

Chintan Shah: Okay, sure. And sir, what about the 3.4% net NPA which we have in the JM Financial Credit Solutions. So any kind of resolutions expected there? And I think they were 2, 3 projects which were kind of undergoing some resolution. So has there any progress on that? Or do we expect also that to gradually have some resolution by June 2026 there as well?

Vishal Kampani: Yes. So that's an excellent question. In our cash and cash equivalents, we have not included any cash flow, which is from the resolution of NPA accounts. So over the next 2 years, if we have any resolution from our NPA accounts, that will increase the cash and cash equivalents in JM Financial Credit Solutions and JM Financial Products. So that has not been included.

To give you guidance on that number, that number is around INR600 crores to INR700 crores on a gross NPA basis, if we were to recover everything. If you assume that we even recover what is unprovided for, that number will be at least INR200 crores to INR250 crores in Credit Solutions.

Chintan Shah: Sure. That's very clear. So sir, now on the AWS and investment phase now as we believe since we have been seeing in the past 4, 5 quarters, we have made some senior management hires across the non-lending businesses. And because of that, there has been a significant bump up in the cost to income. And so where do we see the cost to income for AWS kind of settling over FY '25 or '26 when do you see the…

Vishal Kampani: Yes. So I'll have Chirag and Sonia answer that question. I'll only answer one part of it that right now, while cost to income is a very important parameter for the AWS business, which in our new avatar, we are calling Wealth and Asset Management, we are still in heavy investment mode in Asset Management, PMS as well as digital broking. So you will only see a stabilized cost to income somewhere in the year '26 and '27, because right now, we are still in investment mode. On recruitment, etcetera. Chirag and Sonia will take the question.

Chirag Negandhi: Yes, I think just to add to what Vishal said, we continue to be in investment mode there. What we're seeing is, of course, some of the costs being front-ended because of the people that we're taking on as the revenues kick in from those hiring, you'll see that change as well. We will stabilize, Vishal at the start of the call, mentioned how the digital broking group will stabilize as well. And once the digital piece settles as well, you'll see that bearing fruit in terms of the numbers showing up much better as well.

Sonia Dasgupta: Sonia, here. I think, like was mentioned by the earlier question, the Indian capital markets are deepening and widening and we believe, given our inherent strength of having very strong relationships, very strong understanding, very strong capability to structure, we are keen to have the best team and we will deepen and widen both on origination and execution of our teams because we see that there is a lot to be captured. And we'll continue to make sure that we focus on hiring the best and also retaining and training them.

Vishal Kampani: I think one more comment to add to what Chirag and Sonia saying that today, I mean, the amount of business that is visible from corporate clients, Ultra HNI clients as well as private equity clients is absolutely mind blowing. And I think if we were to add people and the right kind of people, I think their ability to generate revenue is no longer a stretched timeline.

I think they can literally hit the road running. I mean, that is the kind of volume of business, which is visible on the capital markets as well as the wealth management side. And I foresee the same thing happening on the private credit side. I think private credit has been slow for the last 4 to 5 years because you've seen an unbelievable bull run in equities.

And like all of us know, right, that the equity story is not always a rising story. And you will see a significant shift in the next 4, 5 years, where equity will continue to outperform, but there will be a very strong asset class being built around private credit. And both our investment bank and our wealth management already have the origination side in place. So, our focus is really to build more structuring, more sales and more distribution there.

Chintan Shah: Sure. So actually, this is quite helpful and quite clear.

Moderator: The next question is from the line of Kshitij Saraf from Tusk Investments. Please go ahead.

Kshitij Saraf: I wanted to know on the investment banking side, once we take out the interest component, which seems degrowing year-on-year because of the debt issuance, on the transaction side, we see around INR240 crores of revenue last year. And this quarter, this year, it's about INR265 crores. And our private wealth AUM has grown 27-odd percent in the same period. So if you could just help understand the moving parts over here?

Vishal Kampani: Sure. So the way we model the integrated investment bank until last quarter, was always going to be with the earnings of the private credit business, which is the bespoke finance business and the corporate lending business as part of the investment bank.

What we are doing is we are simplifying that structure, which you see on Page 6, where going forward, the corporate advisory and capital market business will not have kind of the lending revenue in it. The lending revenues will sit in the private credit syndication business, what the corporate advisory and capital market business will have an origination fee for bringing the business to the private credit syndication group.

And therefore, it simplifies the structure because the capital requirements for the corporate advisory and capital market business is very, very small. And this would be -- even with the capital of INR300 crores or INR400 crores, we will be able to generate upwards of 50%, 60% ROE. So this is kind of the split. And therefore, on the pure investment banking side, the revenue number, along with institutional equities would be circa between INR400 crores to INR500 crores. That number, I think the expected growth will be in the high teens over the next couple of years.

Kshitij Saraf: Understood. And -- in terms of Q1, was it a bit slow because of several macroeconomic factors? Do you see Q2 getting better, for example, we see more IPOs, a little larger sizes to INR2,000 crores to INR4,000 crores more in the second quarter?

Sonia Dasgupta: Yes. And also what happens is the timeline to book the fees is after the IPO closure. So we had closed quite a few large QIPs this quarter and some of the IPOs that we closed last quarter, the fees will be booked actually this quarter. But you're right, many large deals are getting launched in this quarter two.

Kshitij Saraf: Okay, we have 44 wealth managers on the private wealth side, what is our planning in terms of people on this plan?

Chirag Negandhi: Look, the private wealth business for us is one of the big focus businesses for us. I don't want to give you a number in terms of where we take the RMs or the relationship managers over the next 12 or 18 months. But you should know that the way we look at this is what you're seeing is just the private wealth is 44. There is also what we call the elite wealth, which had another 47-odd relationship managers. So we will continue to grow as we continue to focus on this business.

And going back to a question that someone else was asking, please don't think of these additions to the team is just from a cost income of that business. We are massively driving the cross-sell across taking the corporate as a client or taking the institution as a client and we are driving the cross-sell across businesses. So you will see the benefits of that cross-sell coming through in the quarters to come as well. But yes, from RM perspective, the way we look at it is, we are at almost 100 today, and we'll continue to grow that.

Kshitij Saraf: All right. Lastly, on the regulator front, is there any update we have post the last filing?

Nishit Shah: From the RBI perspective, the special audit is complete, and we have submitted our response to the RBI. So we'll discuss and work with RBI towards closure. As far as SEBI is concerned, we are fully cooperating with them in terms of the information that they need to complete their investigation. So that's the update.

Moderator: The next question is from the line of Apurva Sharma from BugleRock. Please go ahead.

Apurva Sharma: Yes. So a few questions. So on Slide 28, we are seeing -- we saw in Q1 FY '24, INR18 crores of investments in AMC and Digital and this quarter, it was around INR33 crores. So what is it the likely level will it be at this level or -- how do we see it going forward?

Vishal Kampani: Yes. So I'll take that question. I think it will be around INR25 crores to INR30 crores for digital every quarter. And it will be between INR10 crores to INR15 crores on asset management and another, say, INR5 crores to INR10 crores for the AIF business. So roughly all put together, we should assume INR50 crores per quarter will be the investment and we will continue investing over 8 quarters. So it's almost a INR300 crores to INR400 crores investment. All of this investment will get funded, hopefully from the profitability of the business, considering the pipeline as well as the growth in the business looks very robust.

Apurva Sharma: And next question is what is the cost of funds for JM Financial Home Loans? And how has it moved in the past 1 year or so? I just want to get some colour on that?

Manish Sheth: So Manish here, on cost of fund of JM Financial Home Loan, you have to understand that 25% roughly of the liability is funded through National Housing Bank Refinance schemes and balance is funded through bank borrowings as well as the NCD or liabilities that are long term. On book cost of fund is around 8.6%, and incremental cost of fund is around 9%.

Apurva Sharma: From 8.6% to incremental of 9%, that's what you are saying. Okay. So again, the EMI bounce ratio as you were seeing was around 17.3% for March '24, but collection efficiency is shown at 99.1%, right? So how should we look at this data? And I have a follow-up on this here.

Manish Sheth: So basically, there are various people show it very differently. But what we show is the current month collection efficiency, that means if current month, I have put -- let's say, 20,000 customers EMI. Out of that 17% bounce, roughly 3,400, whatever that number is. And out of that, we recover or collect 99%. So we don't count as in terms of first outstanding or an EMI of the last month collected this month as part of the collection efficiency.

Apurva Sharma: Okay. And -- so whose responsibility is the collection team and how often does the follow-up happen? And how big is it the collection team. So just...?

Manish Sheth: Yes. So good question. So when we started this business 6 years back, we were the first one to hire collection head as well as all the collection executives. So it's a process. Wherever there is a branch which has more than 20, 25 bounces, we put collection executives. Till then sales and credit who kind of collect these bounces. Today, the team is as large as 100 people on the collection & execution side and there are 6 to 7 people on the litigation side.

And the structure-wise, we have national collection, we have state level collection, we have area collection as well as collection executive. So out of 112 odd branches, around 80, 85 branches would have collection executives responsible for the collection. At the same time, 12-month MOB bounces are also collected by the sales and credit jointly along with the collection guys. So collection executives report to the collection head, sales and credit. We don't have a branch head concept; we have a separate vertical. Everybody sits in a branch, but they report to the vertical head.

Moderator: The next question is from the line of Sandeep Thakkar, who is an Individual Investor. Please go ahead.

Sandeep Thakkar: Yes, thank you, sir, for the opportunity for a question. Hello?

Vishal Kampani: We can hear you, but we can't hear you very clearly.

Moderator: Yes, sir.

Sandeep Thakkar: Just a moment sir. Can you hear me, sir?

Vishal Kampani: Yes.

Sandeep Thakkar: Yes. I have 2 questions, sir. You are a very old company, sir. And you are very good promoter, you have, in past, JV with Morgan Stanley. So your track record is very good, sir. So my question is sir, why don't we grow like others Motilal Oswal and so on? So please give some thoughts on this?

Vishal Kampani: Yes, it's a very good question. And the answer is, yes, we want to grow like them, and we want to be as big as them and that is the idea of the entire sort of Version 2 for us where we do not want to focus on leverage businesses except for our retail home loans business and margin trade finance business. And the idea is to get bigger in the businesses, what our brand stands for and what our brand is known for.

Sandeep Thakkar: Sir, if can you expect which...

Vishal Kampani: Sorry, I can't hear you clearly, your voice is grabbling, sorry, it's not clear.

Sandeep Thakkar: Sir, when can we expect for this kind of growth?

Vishal Kampani: We are aiming to grow as fast as we can. In home loans, we want to grow at 35% and in our corporate advisory and capital markets business, we want to grow in the high teens. And on the wealth management side, we want to grow between 25% and 30%.

Moderator: Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Vishal Kampani for closing comments.

Vishal Kampani: Yes. Thank you very much for participating on our quarterly call. And as promised, we started the quarterly call this year and we will continue with this format to have a call every quarter. And I look forward to interacting with you all on the call as well as in person. And with that, I hand it back to the moderator and thank you, everyone.

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