

JM Financial: Is recent share price crash a buying opportunity?

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Over the last few days, the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have cracked the whip on JM Financial over alleged violations in the handling of certain public issuances. On March 5, the RBI directed JM Financial Products Limited (JMPL), a non-banking financial company subsidiary of JM Financial, to immediately cease and desist the sanction and disbursal of loans against shares and debentures.

SEBI then barred JM Financial from officiating as lead manager for any fresh debt issue. JM Financial, however, has been allowed to continue as lead manager for existing debt public issue mandates for another 60 days. This comes after SEBI unearthed discrepancies and inter-group transactions in a November 2023 issue during a 'routine examination' of public non-convertible debentures (NCDs) issued that year. The stock has since been under pressure, recently declining by nearly 21 per cent month-to-date.

We take a closer look at the different segments of the JM Financial group and the significance of recent developments. Incorporated in 1973, JM Financial is a diversified financial services player with four primary business segments: Investment bank (37 per cent of FY23 revenue); mortgage lending (39 per cent); alternative and distressed credit (4 per cent); and asset management, wealth management and securities business (19 per cent).

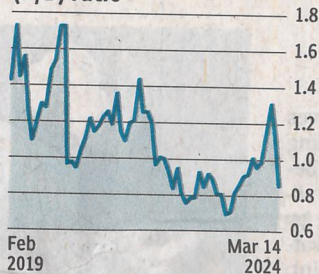
IMPACT OF REGULATORY ACTIONS

The two activities under the lens of the RBI and SEBI fall are in the investment bank segment, which includes management of capital markets transactions, advising on mergers and acquisitions, and private equity syndication. This segment also includes the institutional equities business and research, private equity funds,

fixed income, syndication, and finance. It is the most profitable segment for the company with profit after tax (PAT) margins of 31.4 per cent in FY23 (29.6 per cent in the nine months of FY24).

As a result, its PAT contribution was around 55 per cent in FY23 (around 64 per cent in 9MFY24). The total volume of issuances managed by

Trailing 12M Price-to-Book (P/B) ratio



Source: Bloomberg

the company in the public issue of NCDs was around ₹2,227 crore in FY23 (₹4,000 crore in FY22). With a market share of 25 per cent (down from 35 per cent in FY22), JM Financial ranked No. 3 for FY23 in the Prime Database League Table.

JMPL focuses on loan products customised to the needs of corporates, institutions, small and medium enterprises (SMEs), and individuals. It focuses on capital market financing (21 per cent of Q3FY24 loan book of ₹4,600 crore), retail mortgage financing (20 per cent), bespoke financing (26.5 per cent), financial institution financing (26 per cent), and real estate financing (6 per cent). It reported a consolidated revenue of ₹1,023 crore (33.6 per cent year-on-year) and pre-provision operating profit of ₹404 crore (47.4 per cent YoY) in FY23.

The RBI's directive to immediately cease and desist the sanction and disbursal of loans against shares and debentures will affect growth in capital market financing

WHAT SHOULD INVESTORS DO?

After the recent fall, the stock currently trades at a trailing 12-month (TTM) price-to-book (P/B) ratio of 0.89x, a 20 per cent discount to the five-year average of 1.11x. Even though the stock may appear to be at a significant discount to historical levels, it is still above the March 2023 level of 0.7x. It is important to note that the financial performance of the company can be cyclical and dependent on the overall deal activity, which can be volatile.

With the increased uncertainty over two key business activities, we believe the stock could continue to be under pressure in the coming days. We recommend potential investors to wait and watch the progress of the regulatory action before deciding.

WHO AM I?

Are you an avid investor? How well do you know corporate India?

Here's a challenge. Using the five clues below, identify the company that is being talked about here.

- 1** I am the largest in my segment nationally with more than half the market share and amongst the top 5 in Asia.
- 2** My founder is from Stanford and began his career with a global leader in tech space. My corporate identity and brand evolved from his mother's name.
- 3** Only 2 per cent of Indians currently use my industry products, more than 20 per cent of Indians are my target audience, leaving enough scope for me to grow.
- 4** My annual net profit is crossing ₹100 crore in my silver jubilee year but in such a short history I have pioneered quite a few business models.
- 5** My founder family owns only 25 per cent stake but is totally committed to my growth. If recent expansion into a newer geography can be replicated to a successful business model, I can aim to be a billion-dollar company soon.

Send your answers by Wednesday 6 p.m. to who-am-i@thehindu.co.in, with your full name, postal address and phone number. A lucky winner in each week will get a book sponsored by UNIFI Capital as a reward.

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Last week's stock:
Gujarat Gas Limited

Last week's winner:
Saranya Kannabiran