

COMPANY NAME	: JM FINANCIAL
BSE Code	: 523405
Time Duration	: 1 year
CMP	: ₹55.95 (as on 20 July, 2016)
Target Price	: ₹95

The Mid-cap of the July month is JM Financial, a company which operates through majority owned subsidiaries and in the space of investment banking, financing, mutual funds, private equity and asset reconstruction. Company has a strong and transparent management and operates in lending business which is growing at a CAGR of 25%. Company has high ROE of 17.3 in FY16, up from 6.3 in FY12 and enjoys best in class operating margins of 80%. We foresee a strong growth in their investment banking, funding and asset reconstruction businesses and hence recommend a BUY.

Investment banking and Securities business: This is company's oldest business which envelopes investment banking services, Institutional Equities, Wealth management business, Equity brokerage business and Mutual Fund distribution business. Company was involved in deals worth 40,000 crore, and equity fund raising worth 36% of the total of capital raised in FY16. We believe that due to consolidation in industry and high demand for fund raising through equity, this segment will continue to grow at a double digit rate. Also, as the company has secured 2nd place in league table (as per Merger Markets), its brand value will be enhanced. Company has also been able to grow its wealth management business and currently has AUM of Rs26,958 crore.

Fund based business: This segment contributes 79% to the bottomline with lending book of Rs 7214 crore (Rs 5629 to real estate) and operates in a high potential area of developer financing. The overall yield is approximately 15%. The company lends to Tier I real estate developers for construction financing for residential projects in Tier 1 cities like Mumbai (45%), Bangalore (20-25%), Pune (10-15%) and rest in Thane, Chennai and Hyderabad. The spread ranges at 5.5% with capital adequacy of 29% and gross NPAs of 0.3%. We see that management is conservative about lending at lower spreads, keeps high levels of collaterals and takes on moderate risk. In the residential segment the loan book has grown by 100% in FY16. Company also eyes growth in retail housing finance eventually.

Asset management: Company holds 55.3% stake in subsidiary and the AUM has increased from Rs 12,000 crore to Rs 16,000 crore in FY16. This segment contributes 8% to profit before tax and has seen more than 50% growth in sales and profit in FY16.

Asset reconstruction: Company also operates in asset reconstruction space and has highest capitalisation in private space, and expertise in the same. With stressed assets in the industry

going up to 11-12% and NPA close to 4 lakh crore, the company has been grabbing the opportunity. The capital requirement though is high, a minimum of 15%. Company has good track record of recoveries and this should help the company to grow further in this vertical.

Alternative asset management: Company operates Private equity fund and mutual fund schemes and is viewing exit opportunities in the same. This should further capitalize the company.

Financials: Company has seen a strong growth in topline of 25% and CAGR of 16% over FY12-16. The growth was primarily driven by growth in lending to real estate developers and good recoveries in asset reconstruction. Company has recorded high operating margins of 80% and PAT margin of 31.4%. Due to this the company was able to grow its net profit by 30.5% YoY and witnessed 21.8% CAGR growth over FY12-16.

Valuation: At FY16 EPS of 5.08, company is trading at P/E of 11.5x which is below the industry average of 17x. Considering the potential to grow topline by 20% and high conversion to cash flows, we recommend a BUY at the current level and see target price of Rs 95 over a year.

Revenue Segment (Rs in Crore)						
Description		2016	2015	2014	2013	2012
Investment Banking Securities & Wealth Mgmt	Revenue	495	522	408	429	404
	PBT	79	124	45	47	35
Fund based Activities	Revenue	1079	806	529	552	414
	PBT	549	347	200	183	133
Asset Management	Revenue	86	47	27	29	30
	PBT	56	18	4	2	-2
Alternative Asset Management	Revenue	12	27	30	27	46
	PBT	4	15	19	16	9
Asset Reconstruction Business	Revenue	319	214	120	89	40
	PBT	158	60	75	61	22

Inc/Exp Statement (Consolidated) (₹ Cr.)					
Description	2016	2015	2014	2013	2012
Net Sales	1494.84	1196.23	828.95	797.26	674.17
Total Income	1684.66	1403.04	1006.67	1042.23	873.97
Total Expenditure	459.43	447.88	403.44	399.22	383.72
PBIDT	1225.23	955.16	603.23	643.01	490.25
PAT	470.41	360.52	200.18	179.00	123.16
Dividend %	145.00	135.00	100.00	90.00	60.00
Adj. EPS(Rs)	5.08	4.22	2.77	2.43	1.62

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