

JM Financial Ltd

Shadowing markets

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 5/5 (CMP has strong upside)

Industry

Capital markets

JM Financial Ltd's Q3FY12 earnings were in line with CRISIL Research's expectations as the investment banking (IB) and broking businesses continued to face challenging market conditions. However, with the market environment turning conducive since the start of Q4FY12, we remain positive on the financial services industry and JM Financial's strong positioning in the sector. Hence, we maintain the fundamental grade of **4/5**.

Q3FY12 result analysis

- Consolidated revenues declined 11.4% q-o-q (down 31.0% y-o-y) to Rs 1.9 bn as intense competition, low retail participation and declining broking yields continued to impact the securities business. Also, its average daily turnover declined to ~Rs 13 bn vs. ~Rs 15 bn in Q2FY12. The company has a healthy deal pipeline but deal execution has been a challenge due to poor market conditions. The company managed to close two debt deals and one M&A transaction.
- Revenues of the securities funding and fund-based activities segment grew 9% q-o-q to Rs 1 bn primarily due to the healthy lending book, which grew 8% q-o-q to Rs 21 bn despite market turbulence. Segment PBT (after interest) grew 16% q-o-q as the company relied on treasury funds instead of resorting to high cost borrowings.
- The AMC business was again in the black due to lower bonus provisions in Q3FY12. Alternative asset management posted a loss because of exits in some of the portfolio.
- Despite 11.4% q-o-q decline in revenues, EBITDA fell 3.2% q-o-q to Rs 1.1 bn due to a sharper decline in costs. Staff costs fell 4% to Rs 433 mn due to a decline in bonus provision. Sub-brokerage, fees and commission fell 58.8% q-o-q to Rs 0.1 bn as brokerage pass-outs to distributors fell due to low-yielding IB debt deals executed during the quarter. Accordingly, EBITDA margin grew 499 bps to 58.8%.
- Despite muted EBITDA growth, adjusted PAT grew 5% q-o-q (down 51.8% y-o-y) to Rs 287 mn due to the decline in interest and finance charges and lower tax rate. The tax rate fell to 33% as against 38% in Q2FY12 (reversal of deferred tax asset in Q2FY12).

Valuations: Current market price has strong upside

We continue to value JM Financial based on the sum-of-the-parts method. Our fair value of Rs 36 per share value implies P/E multiples of 23.7x FY12E and 17.2x FY13E earnings. The valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	4,644	5,751	8,478	8,450	9,476
EBITDA	1,446	2,098	4,472	4,180	4,548
Adj PAT	501	1,107	1,847	1,139	1,568
Adj EPS-Rs	-1.4	2.0	2.3	1.5	2.1
EPS growth (%)	NM	NM	15.1	-34.8	37.7
Dividend yield (%)	1.1	1.6	3.2	3.2	3.2
RoCE (%)	5.3	6.8	9.4	8.1	9.1
RoE (%)	-5.5	7.9	8.5	5.3	7.0
PE (x)	NM	18.7	7.9	12.1	8.8
P/BV (x)	0.8	1.4	0.7	0.6	0.6
EV/EBITDA (x)	7.5	18.2	8.2	7.5	7.4

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

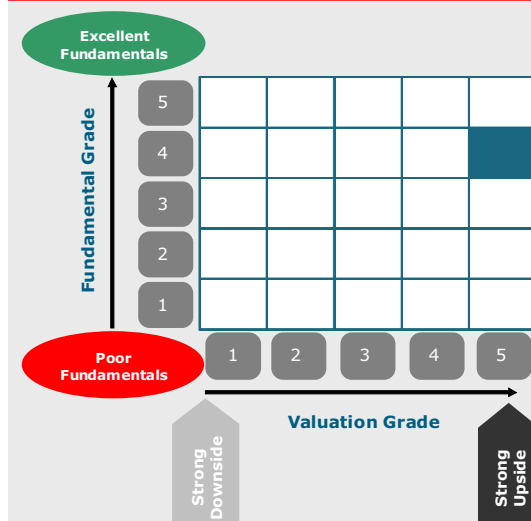


February 20, 2012

Fair Value Rs 36

CMP Rs 18

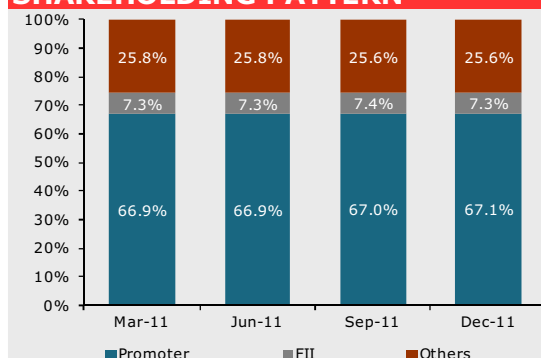
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5564/18289
NSE / BSE ticker	JMFINANCIL /JMFINAN
Face value (Rs per share)	1
Shares outstanding (mn)	750
Market cap (Rs mn)/(US\$ mn)	13,787/280
Enterprise value (Rs mn)/(US\$ mn)	35,671/726
52-week range (Rs) (H/L)	34/12
Beta	1.45
Free float (%)	32.9%
Avg daily volumes (30-days)	2,010,567
Avg daily value (30-days) (Rs mn)	29.4

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
JM Financial	29%	8%	-6%	-30%
NIFTY	12%	13%	10%	0%

ANALYTICAL CONTACT

Chetan Majithia (Head) chetanmajithia@crisil.com
 Elizabeth John ejohn@crisil.com
 Vishal Rampuria vrampuria@crisil.com

Client servicing desk

+91 22 3342 3561 clientservicing@crisil.com