March 23, 2021

Jana Small Finance Bank Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures	726.0	0.0	[ICRA]BBB (Stable); reaffirmed and withdrawn
Subordinated Debt	701.0	701.0	[ICRA]BBB (Stable); reaffirmed
Total	**1,427.0**	**701.0**	

**Instrument details are provided in Annexure-1*

ICRA has reviewed Jana Small Finance Bank's ("JSFB"/"Bank") performance and carried out the rating exercise based on September 2020 audited financials/December 2020 unaudited financials and other data upto January 2021 shared by the Bank. However, the rationale discloses the information pertaining only to the period upto September 2020, in view of the expected DRHP filing by the Bank.

Rationale

The rating considers the steady deposit scale-up by Jana Small Finance Bank Limited (JSFB) as well as the diversification in the liability profile supported by funding lines from refinance institutions. The bank's deposit mobilization during 6MFY2021 is also characterised by the improvement in its deposit tenor and granularity. The bank would have to further enhance the deposit profile by increasing the share of granular/low cost deposits. JSFB's collections from the loan accounts were impacted by the curtailment in economic activities and the extension of the moratorium to the borrowers on account of the Covid-19 pandemic. ICRA takes note of the sharp increase in the overdues post August 2020. JSFB, like other peers, is faced with increased asset quality pressures on account of Covid-19 disruptions leading to restructuring of some of its exposures and increase in 90+dpd vis a vis 2.7% in September 2020. The bank has steadily increased its secured exposures largely loans to micro, small, and medium enterprises, affordable housing loans and gold loans, which together accounted for 30% of the overall portfolio as on September 2020 vis a vis 25% as of March 2020. Microfinance/ other unsecured loans however still contribute to a sizeable share of its portfolio (70% as of September 2020). The ratings therefore continue to factor in the risks associated with the unsecured nature of the microfinance loans, the credit risk emerging from the marginal borrower profile and other socio-political and operational risks inherent to the microfinance business.

JSFB's capitalization is characterized by high gearing of 12.8x as of September 2020; capital adequacy ratio stood at 20.1% (Tier I at 14.2%) as on September 30, 2020. ICRA takes note of the demonstrated support from the key shareholders, which has cushioned the capitalization, despite sizeable net losses over the period FY2018-FY2019. Given the envisaged portfolio growth and the expected asset quality pressures over the near term, it is crucial for the bank to raise capital to have an adequate buffer over regulatory requirements as earnings performance is expected remain subdued. The bank is currently planning to raise capital from the holding company and as per RBI guidelines, it is required to list its equity capital. The proposed IPO in the near term is expected to further augment its equity capital.

ICRA has reaffirmed and withdrawn the rating on the Rs.726.0 crore NCD as the instrument has been fully redeemed and there is no amount outstanding against the rated instrument. The rating was withdrawn as per ICRA's policy on the withdrawal and suspension of credit ratings

Key rating drivers and their description

Credit strengths

Scale-up in deposit base and access to refinance supported liquidity, sustained improvement in the liability profile would be key for future growth plans: The bank's deposits stood at Rs. 10,229.9 crore (term deposits of Rs. 9,232.5 crore) as on September 30, 2020 (compared to Rs.4,198.7 crore as on March 31, 2019). The bank has converted all its branches into liability accepting branches before the timeline in March 2021. The deposit maturity profile has improved with about 79% of the term deposits having more than 1-year tenor as of September 2020 vis a vis 67% as of December 2019. Also, the granularity of deposits has improved with 59% of deposits being of ticket size less than Rs.1.0 crore and 66% with ticket size less than Rs. 2.0 crore as of September 2020 (52% and 58% respectively, as of December 2019). Further, about 33% of the total term deposits (as of September 2020) was from senior citizens, which are generally sticky in nature thereby supporting stability of deposits. As of September 30, 2020, current account and savings account (CASA) deposits accounted for 9.7% (8.1% in December 2019) of its total deposits; improvement in the share of the same would be crucial from long-term liquidity and cost of funding perspective. In terms of the bank's overall liability profile, deposits accounted for 71.1% of its total borrowings as on September 30, 2020. The bank has been able to secure long term borrowings[1] in the form of a refinance facility from National Bank for Agriculture and Rural Development (NABARD) and National Housing Bank (NHB) over the recent past (15.7% of the total borrowings as of September 2020), which supports its liquidity profile. Going forward, the bank's ability to achieve sustained growth and improvement in the deposit profile would be crucial.

Support from key shareholders, experienced Board and senior management: Over the last four years, the bank has received regular support from some of its key shareholders – directly as well as in the form of debt in the holding companies (Jana Holdings Limited [JHL] and Jana Capital Limited[JCL]). The bank has received a total capital infusion of Rs.3,061 crore since March 2017 (Rs.1,636 crore equity during FY2018, Rs.1,086 crore during FY2019, and Rs.339 crore in FY2020) which has aided the bank in sustaining capitalization levels despite substantial losses. In addition to direct equity infusion, ICRA also notes that its key shareholder (TPG Asia) also subordinated its debt investment in JHL to other lenders with a view to facilitate further fund raising. While JSFB's plan to open its IPO in Q3/Q4FY2021 got delayed due to the Covid19 pandemic, the bank is planning for the same by Q1/Q2 FY2022. Prior to the IPO, JCL is expected to raise capital/funding, which would be infused as equity into JSFB.

JSFB has a nine-member board with six independent directors. The board has sub-committees including committees for audit and compliance, risk management, credit, customer service, information technology (IT) strategy, corporate social responsibility, etc. It also has an experienced senior management team with significant expertise in banking and other financial services. Considering the growth plans, JSFB is in the process of augmenting its management team, however ability to retain talent will be critical going forward.

Credit challenges

High leverage; timely capital raise in the near term crucial: – As on September 30, 2020, JSFB's capital adequacy ratio stood at 20.1% (Tier I capital at 14.2%), supported by regular equity infusion in the past. The bank raised Rs.1,636 crore equity during FY2018, Rs.1,086 crore in FY2019, and Rs.339 crore in FY2020 from existing and new investors. It's gearing levels continue to remain high (12.8x as on September 30, 2020 considering deposits as debt and 11.8x as on March 31, 2020). Further, ICRA notes that the capitalization levels have also been supported to some extent by the regular (inter-bank participatory certificates) IBPC transactions undertaken by JSFB. As on September 30, 2020, the bank had outstanding IBPC transactions amounting to Rs. 802 crore. In view of the likely asset quality pressures on account of the pandemic and its currently moderate provisions (overall provision of 3.1% of the AUM as of September 2020), it will be important for JSFB to raise capital in a timely

[1] Including deposits

manner in the near-term, for maintaining an adequate buffer over regulatory capital levels and to support the portfolio growth. The bank was expected to list itself on th stock exchanges by March 2021 as per licensing guidelines. However, the same is delayed on account of the pandemic and is expected to be completed by Q1/Q2 FY2022. ICRA takes note of the weak capitalisation profile of JHL, the holding company. Moreover, JHL continues to be in breach of the consolidated regulatory capital adequacy and leverage ratio for a non-operative financial holding company (NOFHC) and the minimum core capital requirements

Asset quality pressure on account of Covid-19; rapid increase in the share of secured exposures: – The microfinance industry faced many challenges following the spread of the pandemic. These include the continuity of business operations on the field, slowdown of economic activities and the possible adverse impact on the asset quality. ICRA takes note of the sharp increase in the overdues post August 2020. Collection efficiency including prepayments, arrears and collection from the written-off book stood at 90% for September 2020. JSFB, like some of the other peers with sizeable microfinance exposures, is faced with increased asset quality pressures on account of Covid-19 disruptions leading to restructuring of some of its exposures and increase in 90+dpd vis a vis 2.7% in September 2020.

Delinquencies are relatively lower in the non-microfinance book (secured). JSFB has been steadily increasing the share of this portfolio, which stood at 30% of the overall portfolio as on September 2020 as compared to 25% as on March 2020 and 14% as on March 2019. The growth in secured book from Sep-19 to Sep-20 is ~95% on the back of its low base. The company is expected to scale up the secured advances portfolio to about 40% over the near term. Ability to maintain good asset quality would be critical – especially given the limited seasoning and higher-ticket sizes in these asset segments.

Near-term profitability to remain subdued: The bank reported PAT of Rs. 30.1 crore and Rs. 82.4 crore during FY 2020 and H1FY2021, respectively, as it has largely provided for the credit costs due to demonetization-related delinquencies. This was supported by the scaling up of the performing portfolio during FY2020 and the various cost saving measures undertaken by the management. JSFB's return on average managed assets [profit after tax (PAT)/average managed assets (AMA)] stood at 1.1% in H1 FY2021 compared to 0.2% in FY2020. However, given the expected slippages due to the pandemic, the credit costs are likely to increase in FY2021 and FY2022, impacting the bank' profitability. Provisions and write-offs stood at 1.6% of the AMA in H1FY2021 (0.7% in FY2020)**.** The bank made an additional cumulative provision of Rs. 110 crore as of September 2020 in view of the Covid-19-related business disruptions. The overall provisions in relation to the AUM however is currently moderate at Rs. 346 crore (3.1% of the total portfolio). Thus, it would critical to make recoveries from the current overdues and control incremental slippages.

Ability to scale-up new segments and manage risks associated with the microfinance sector: JSFB commenced operations as a small finance bank from March 28, 2018. The overall loan portfolio stood at Rs. 11,263 crore as on September 2020 registering a growth of 32% over September 2019. The share of unsecured portfolio has reduced over the last few quarters, however, unsecured / microfinance loans continues to remain the mainstay of the bank accounting for 70% of its portfolio as of September 30, 2020 (75% as of March 2020 and 86% as of March 2019) with the balance being constituted by secured business loans (2.9%), MSE loans (12.5%), Affordable Housing (7.5%), Gold loans (4.9%) and others (1.8%). The bank's ability to scale up its exposure to micro, small, and medium enterprises and housing finance, which would support portfolio diversification, while maintaining a healthy asset quality over the medium term, remains to be seen. The microfinance industry is prone to socio-political and operational risks, which could negatively impact its operations and thus financial position. However, a geographically diversified portfolio would mitigate these risks to some extent. Going forward, JSFB's ability to expand into new geographies by onboarding borrowers with good credit history along with recruitment and retaining of employees, would be key for managing the envisaged growth of 20-25% over the period FY2022-23.

Liquidity position: Adequate

JSFB held Rs. 1,801 crore of on-book surplus liquidity as on September 30, 2020. The bank continues to make collections of Rs. 650 crore to Rs. 700 crore on a monthly basis and is also witnessing adequate renewals of its deposits. Additionally, the bank has sanctioned but un-utilized interbank lines of Rs. 1,120 crore. As per bank's ALM statement as on September 30, 2020, there were no cumulative mismatches for a period of upto 3 years. It had outstanding borrowings of Rs. 14,397 crore as on September 30, 2020 comprising deposits (71.1%), borrowings from NBFCs/ Financial Institutions (15.7%), bank borrowings (7%), Tier II non-convertible debenture (NCD) borrowings (4.9%), and other borrowings (1.5%). The bank's liquidity profile is also supported by access to long term refinance facilities secured in the recent past. Its CASA ratio is quite moderate indicating adequate scope to augment the same going forward. The liquidity coverage ratio is quite comfortable and well above the regulatory requirements.

Rating sensitivities

Positive factors – ICRA could upgrade JSFB's rating if the bank demonstrates sustained improvement in earnings and asset quality profile while maintaining adequate capital buffer over regulatory requirement.

Negative factors – Pressure on JSFB's rating could arise if there is a sustained weakening in asset quality impacting earnings and capital profile or if there is a moderation in liability profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Non-Banking Finance Companies Rating Methodology for Banks Policy on Withdrawal of Credit Ratings
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial statements of Jana Small Finance Bank

About the company

Jana Small Finance Bank (erstwhile Janalakshmi Financial Services Limited) commenced operations as a non-banking finance company (NBFC) on March 4, 2008 and was later classified as a non-banking finance company-microfinance institution (NBFC-MFI). The bank received a license to set up a small finance bank on April 28, 2017 and commenced banking operations on March 28, 2018. Jana Holdings Limited (JHL), a non-banking finance company-non-operative financial holding company (NBFC-NOFHC), holds a 42.1% stake in JSFB as on September 30, 2020. Incorporated on March 10, 2016, Jana Holdings Limited (JHL) is a non-banking finance company – non-operative financial holding company (NBFC-NOFHC).

JSFB has a diversified presence across 22 states and union territories in India, with a gross portfolio of Rs. 11,263 crore as on September 30, 2020.

Key financial indicators (audited)

Company Name	FY2019	FY2020	6M FY2021
Total income	1,354.3	2,255.1	1,308.9
Profit after tax/ (loss)	-1,949.1	30.1	82.4
Net worth	673.6	1,043.5	1,126.3
Total managed portfolio	6,519.6	11,118.3	11,065.0*
Total managed assets	9,748.8	15,306.1	16,194.0
Return on managed assets	-19.6%	0.2%	1.0%
Return on net worth	-177.0%	3.5%	15.2%
Gearing (times)	12.9	12.9	12.8
Gross NPA (%)	8.4%	2.8%	2.5%
Net NPA (%)	4.6%	1.3%	0.8%
Capital adequacy ratio (%)	18.8%	19.3%	20.1%

*Source: Bank financial statements; Note: Amounts in Rs. Crore; *net of provisions*

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Mar-23-2021	FY2020		FY2019		FY2018		
						Jan-29-2020	Jul-9-2019	Mar-18-2019	Jul-20-2018	Dec-18-2017	Aug-04-2017	Jun 30-2017
1	NCD	Long-term	726.00	0.00	[ICRA]BBB (Stable); reaffirmed and withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	[ICRA]A (Stable)
2	Subordinated Debt	Long-term	701.00	701.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA] A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)

Amount in Rs. crore; Source: Company

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
INE953L08030	Subordinated Debt	22-Dec-15	13.80%	22-Dec-22	330.00	[ICRA]BBB (Stable)
INE953L08048	Subordinated Debt	30-Dec-15	14.00%	30-Jun-21	40.00	[ICRA]BBB (Stable)
INE953L08055	Subordinated Debt	21-Mar-16	14.20%	19-May-23	80.00	[ICRA]BBB (Stable)
INE953L08063	Subordinated Debt	28-Mar-16	13.35%	27-May-22	26.00	[ICRA]BBB (Stable)
INE953L08295	Subordinated Debt	19-Jun-19	14.50%	29-Jun-25	175.00	[ICRA]BBB (Stable)
INE953L08303	Subordinated Debt	10-Jul-19	13.15%	10-Jul-25	50.00	[ICRA]BBB (Stable)
INE953L08220	Non-convertible Debenture	30-Nov-16	10.15%	30-Apr-20	25.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
INE953L08253	Non-convertible Debenture	21-Dec-16	10.76%	21-Dec-20	338.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
INE953L08261	Non-convertible Debenture	21-Dec-16	11.10%	21-Dec-21	338.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
INE953L08287	Non-convertible Debenture	15-May-17	10.10%	15-May-20	25.00	[ICRA]BBB (Stable); reaffirmed and withdrawn

Source: Company; Amounts in Rs. crore

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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