Jana Small Finance Bank Limited (Erstwhile Janalakshmi Financial Services Limited)

May 18, 2018

Summary of rated instruments

Issue Name	Instrument*	Initial Amount (Rs. Crore)	Amount O/s after last surveillance (Rs. crore)	Amount after Apr-18 payout (Rs. crore)	Rating action
Leonardo IFMR Capital 2016	PTC Series A1	32.05	18.93	8.72	Rating downgraded from [ICRA]BB-(SO) to [ICRA]C+(SO)
	PTC Series A2	1.78	1.78	1.78	Rating downgraded from [ICRA]B(SO) to [ICRA]C-(SO)

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the ratings for PTCs under a loan securitization transaction originated by Jana Small Finance Bank Limited (Erstwhile Janalakshmi Financial Services Limited), as tabulated above. The PTCs in the transaction are backed by Jana Kisan (JK) loan contracts. The receivables have been assigned to the trust at par.

Rationale

The rating downgrade is driven by continued weakness in the pool collections and higher-than-expected delinquencies. Earlier, ICRA had downgraded the ratings for this transaction in July 2017 and October 2017. The performance of pool has been consistently weak, and has not shown any material improvement despite the efforts taken by the company to beef up its collection infrastructure.

The average collection efficiency between April 2017 and March 2018 collection period for this loan pool has been in the region of 69% to 78%. Despite significant pool amortisation, the build-up of credit enhancement cover in these transactions is lower-than-expected due to weak collection performance. As a result, break-even collection efficiency levels (to ensure that all payouts to the PTC investors are met on time) are high in relation to the collections witnessed in the transaction in the past few months.

A summary of the performance of the pools till March 2018 collection month (April 2018 payouts) has been tabulated below.

Pool Performance Summary

Parameter		Leonardo
Months post securitisation		16
Pool Amortization		77.1%
PTC Amortization:	Total	69.0%
	PTC A1	72.8%
	PTC A2	0.0%
Latest 3 months' average monthly collection efficiency		70.6%
Cumulative Collection Efficiency[1]		75.2%
Loss cum 0+ dpd[2] (% of initial Pool)		35.4%
Loss cum 90+ dpd[3] (% of initial Pool)		31.7%
Cumulative Cash Collateral Utilization		0.0%
Breakeven Collection Efficiency[4] for PTC A1		74.2%
Breakeven Collection Efficiency[5] for PTC A1 & A2		95.0%
Credit Collateral (% of Balance Pool)		31.7%

Key rating drivers

Credit Challenges

- Sustained weak collection performance leading to higher than expected delinquency levels in the transaction
- Limited credit enhancement cover available for meeting the balance PTC payouts

Description of key rating drivers highlighted above:

The monthly collection level for the pool has remained low till date. JFSL has demonstrated limited ability to collect from the overdue contracts, raising concerns over the future recovery from such contracts. Due to weak performance, the PTC amortisation has happened at a slower pace compared to what was initially expected. As a result, despite significant pool amortisation, the build-up in credit enhancement levels has been moderate.

ICRA will continue to monitor the performance of this transaction. The future performance of this transaction would be dependent on the recovery from overdue contracts and control on further slippages of contracts in the various delinquency buckets.

Key rating assumptions

ICRA's cash flow modeling for surveillance of ABS transactions involves simulation of potential delinquencies, losses (shortfall in principal collection during the balance tenor of the pool) and prepayments in the pool. The assumptions for loss and the Co-efficient of Variation (CoV) are arrived at after taking into account the past performance of the Originator's portfolio, and also the performance and characteristics of the specific pools being evaluated. Additionally, the assumptions may be adjusted to factor the current operating environment and any industry specific factors that ICRA believes could impact the performance of the underlying pool contracts.

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[1] *(Cumulative Current and Overdue Collections till date)/(Cumulative Billing till date + Opening Overdues at the start of the transaction)*

[2] *Inclusive of Unbilled and Overdue Principal portion of delinquent contracts, as a % of Initial Pool Principal*

[3] *Inclusive of Unbilled and Overdue Principal portion of contracts delinquent for more than 90 days, as a % of Initial Pool Principal*

[4] *(Balance Cashflows payable to investor of PTC A1– Cash collateral available)/ Balance Pool Cashflows*

[5] *(Balance Cashflows payable to investor of PTC A1 & A2– Cash collateral available)/ Balance Pool Cashflows*

After making the aforementioned adjustments, the expected loss during the balance tenure of the pool is in the range of 50.0% - 55.0% of the balance pool principal. The prepayment rates for the underlying pool is estimated to be in the range of 2.0% - 6.0% per annum.

Analytical approach:

The rating action is based on the performance of the pool till March 2018 (collection month), the present delinquency profile of the pool contracts, geographical spread of the pool contracts, performance expected over the balance pool tenure, and the credit enhancement available in these transactions.

Links to applicable criteria:

Rating Methodology for Securitisation Transactions

About the company:

Janalakshmi Financial Services Ltd (JFSL) is a Bangalore-based NBFC-MFI catering to the financial needs of urban poor women through the Joint Liability Mechanism. The company was founded in 2006 by Mr. Ramesh Ramanathan as Janalakshmi Social Services (JSS), whose portfolio was taken over by JFSL in 2008. The promoter shareholding continues to be in JSS (now called Jana Urban Foundation or JUF); the corpus funds in JUF are used for social activities.

As on February 2018, JFSL had a portfolio of about Rs. 7,742 crore. The company has a diversified presence across 18 states and 2 union territories in India with the share of the top 3 states of Tamil Nadu, Karnataka and Maharashtra comprising of about 50% of the overall portfolio as on February 2018. JFSL registered a high compounded growth of 110% over the last four years ended FY2017. The company raised Rs. 1,030 crore equity during Apr-Nov 2017 from existing and new investors.

In FY2017, JFSL reported a net profit of Rs. 170.0 crore on a total managed asset base of Rs. 15,729.8 crore as against a net profit of Rs. 160.3 crore on a total managed assets base of Rs. 13,345 crore during FY2016. During H1FY2018, JFSL reported a loss of Rs.1,192 crore on a managed asset base of Rs. 10,332 crore.

ICRA has rated twelve standalone JFSL transactions till date backed by Small Group (SG) loans, Enterprise Financial Services (EFS) loans, Nano loans and Jana Kisan (JK) loans. Out of these, three transactions have matured.

Key financial indicators (Audited)

	FY2016	FY2017	H1FY2018*
Total Income	1,785	2,978	816
PAT	160	170	-1,192
Net worth	1,228	2,397	1,747
Total Managed Portfolio	11,007	12,551	10,333
Total Managed Assets	13,345	15,730	14,452
Return on Managed Assets	1.7%	1.2%	N.A
Return on Net worth	13.9%	9.4%	-57.2%
Gearing	7.95	4.97	6.1
Gross NPA %	0.2%	0.7%	29.9%
Net NPA %	0.1%	0.5%	20.2%
CAR %	17.4%	23.9%	17.5%

Amounts in Rs. crore
Source: ICRA research and company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Initial Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating			
					May-18	Nov-17	Jul-17	Feb-17	Jan-17*
1	Leonardo IFMR Capital 2016	PTC Series A1	32.05	8.72	[ICRA]C+ (SO)	[ICRA]BB- (SO)	[ICRA]BBB- (SO)	[ICRA]A- (SO)	Provisional [ICRA]A-(SO)
		PTC Series A2	1.78	1.78	[ICRA]C- (SO)	[ICRA]B(SO)	[ICRA]BB (SO)	[ICRA]BBB (SO)	Provisional [ICRA]BBB(SO)

**Initial Ratings assigned*

Complexity level of the rated instrument: Highly Complex

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 www.icra.in

Annexure-1: Instrument Details

Issue Name	Instrument	Month of Issuance	Coupon Rate	Scheduled Maturity Date#	Rated Amount (Rs. crore[6])	Current Rating
Leonardo IFMR Capital 2016	PTC Series A1	Dec 2016	9.75%	Sep 2018	8.72	[ICRA]C+(SO)
	PTC Series A2		14.00%		1.78	[ICRA]C-(SO)

the actual tenure is likely to be shorter owing to prepayments and accelerated amortisation

[6] *100 lakh = 1 crore = 10 million*

ANALYST CONTACTS

Vibhor Mittal
+91 22 6114 3440
vibhorm@icraindia.com

Abhijeet Ajinkya
+91 22 6114 3434
abhijeet.ajinkya@icraindia.com

Satchit Sawant
+91 22 6114 3435
satchit.sawant@icraindia.com

Arjun Bhatia
+91 22 6114 3449
arjun.bhatia@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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