ICRA

July 09, 2019

Jana Small Finance Bank Limited: Long-term rating of [ICRA]BBB-(Negative) assigned; rated amount revised

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Facilities	270.00	82.66	[ICRA]BBB- (negative); rating outstanding; rated amount revised
Non-convertible Debentures	1,114.00	1,114.00	[ICRA]BBB- (negative); rating outstanding
Non-convertible Debentures	1,451.00	0.00	[ICRA]BBB- (negative); rating withdrawn
Subordinated Debt	751.00	751.00	[ICRA]BBB- (negative); rating outstanding
Subordinated Debt	0.00	225.00	[ICRA]BBB- (negative); rating assigned
Total	**3,586.00**	**2,172.66**	

Rationale

The rating considers Jana Small Finance Bank Limited's (JSFB) weak financial performance marked by sizeable net losses, elevated gearing[1] levels and modest liquidity position. During FY2019, the bank reported loss before taxes of Rs.1,949.1 crore – largely in line with ICRA expectations. Continued operating losses because of high operating costs and limited incremental business and, elevated credit costs owing to modest recoveries from harder buckets (455+days) weighed down on the bank's profitability and capital profile, as its networth stood at Rs.673.6 crore as on March 31, 2019 despite equity infusion to the extent of Rs.1,086.0 crore during FY2019. Consequently, the bank's gearing continues to remain elevated at 12.3x as on March 31, 2019. During February-March 2019, the bank raised capital of Rs.485.0 crore. Additionally, JSFB has outlined capital raise plans to the extent of Rs.300-350 crore over the next few months. However, given its current high leverage, weak operating performance and incremental residual credit costs, ICRA believes the bank' capital profile, even post the proposed equity infusion in FY2020, would remain stretched.

JSFB's credit cost was at Rs.1,372.5 crore for FY2019 while the gross non-performing assets (GNPA) and net non-performing assets (NNPA) stood at Rs.522.6 crore and Rs.273.1 crore as on March 31, 2019. ICRA however notes that incremental fresh slippages from new originations starting January 2018 has been significantly lower which is expected to reduce the bank's credit costs going forward. The bank's ability to revive its operating performance would hinge on its ability to improve its funding to achieve an optimal portfolio size and improve its operating efficiencies.

The bank's deposit mobilization during FY2019 was healthy and stood at over Rs.4,174 crore as on March 31, 2019 (compared to Rs.440 crore in June 2018) which has supported its liquidity profile. However, ICRA notes that cash and liquid investments (excluding the regulatory requirement) stood modest at about Rs.500 crore as on May 31, 2019; access to a few interbank lines (Rs.400-450 crore) however provides some cushion. Deposits with ticket size <Rs.1.0 crore accounted for about 50% of the total deposits in March 2019; ICRA notes that the bank would have to enhance the deposit profile by increasing the share of longer term and retail deposits from a liquidity stand point. Additionally, its

[1] *Including deposits as debt*

ability to secure refinancing lines from institutions including NABARD and SIDBI would also be crucial from a liquidity perspective.

The rating continues to factor in JSFB's geographically diversified portfolio and its experienced management team and board profile. The ratings also factor in JSFB's marginal borrower profile, and limited diversity in its earnings.

Outlook: Negative

The Negative outlook factors in the expected weakness in JSFB's capital and earnings profile going forward. The ratings would be downgraded further if the bank's recoveries and disbursements remain subdued thereby prolonging any meaningful improvement in its earnings and capitalisation, or if its liquidity profile deteriorates because of the bank's inability to mobilise adequate external funding or deposits. The outlook would be revised to stable in case of a steady revival in its profitability indicators and improvement in its capital structure while keeping asset quality under control.

Key rating drivers

Credit strengths

Geographically diversified presence - JSFB has a diversified portfolio with a presence in 18 states and two union territories across India with top 3 states (Tamil Nadu, Karnataka and Maharashtra) accounted for 51.2% of its portfolio as on November 30, 2018. JSFB commenced operations as a small finance bank from March 28, 2018. Apart from group loans, the bank offers individual loans like small business loans (nano and super-nano), enterprise loans and housing loans among others, which constituted the rest. The bank intends to scale up its exposure to micro, small, and medium enterprises and housing finance, which would support portfolio diversification over the medium term. As on November 30, 2018, small batch loans (group loans) accounted for 71.2% of its portfolio of Rs.7,164 crore followed by nano loans (8.6%), agri loans (7.2%) and loans to micro and small enterprises (7.1%). The bank's gross loan portfolio stood at Rs.6,520.0 crore as on March 31, 2019.

Diverse board and experienced senior management team - JSFB has a six-member board with four independent directors. It also has an experienced senior management team with significant expertise in banking and other financial services. ICRA takes note of the frequent attrition in some key managerial positions over the recent past. While the bank in view of the above is augmenting its management team by recruiting experienced personnel, ability to retain talent would be critical going forward.

Credit challenges

Weak recoveries from harder overdue buckets continues to weigh down on asset quality - JSFB's asset quality has remained weak during FY2019 with 90+ dpd[2] at 31.7% (Rs.2,336.4 crore excluding write-off and Rs.3,264.4 crore including write-off) as on December 31, 2018 compared to Rs. 3,270.6 crore[3] in March 2018 (Rs. 1,990 crore in March 2017) because of modest collections from the overdue buckets and limited impact of the various recovery programmes, thus far. Following the sizeable write-off during Q4 FY2019, the bank's gross non performing assets (GNPA) reduced to 8.4%. ICRA takes note of the bank's efforts to improve collections through various measures including augmenting its collections field force, introducing settlement programmes, engaging collection agencies and acting via the legal route against delinquent borrowers. Nevertheless, recoveries from harder buckets (455+ delinquencies and from written off accounts) have remained lower than expected.

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[2] Days past due
[3] including write-off

ICRA also takes note of the strengthened sourcing norms through improved field verification of borrowers, stricter eligibility criteria and reduction in loan size and tenure for new customers. Additionally, JSFB has stopped disbursements in troubled regions and limited its sourcing to certain geographies. These measures have aided in improving the asset quality in the portfolio generated from Q4FY2018. Ability to maintain tight underwriting norms and revive its asset quality as it expands its operations would remain crucial, going forward.

Continued weakness in the earnings profile – For FY2019, JSFB reported pre-provision operating loss of Rs.576.6 crore owing to operating inefficiencies attributed to a sharp reduction in the performing loan book. The pre-provisioning operating losses in H2FY2019 was largely at same levels as H1 FY2019, thus necessitating portfolio growth and further improvement in operating efficiencies. This, along with credit costs of Rs.1,372.5 crore during FY2019 resulted in loss before taxes of Rs.1,949.1 crore (compared to credit cost and loss before tax of Rs.1,481.7 crore and Rs.2,503.8 crore respectively in FY2018).

JSFB has taken steps to keep its operating costs under control and has taken initiatives to reduce its monthly operating expenses. Further, JSFB is taking steps to secure funding from financial institutions and mobilise low-cost deposits to support its business growth as well as aid cost reduction. The above-mentioned steps are critical to support the operating level (pre-provision) performance going forward. Given the currently suboptimal scale of its operations, ICRA notes that the operating losses are expected to continue in FY2020 if the bank does not scale up its advances book or if the operating efficiencies do not improve further.

Deterioration in the capital profile - JSFB's capital profile is characterised by net worth and gearing of Rs.673.6 crore and 12.3x respectively as on March 31, 2019 (compared to Rs.1,529 crore and 5.0 times, respectively, as of March 2018). During the FY2019, the bank raised capital of Rs.1,086 crore; however, despite that the gearing deteriorated significantly owing to substantial losses during the period. JSFB has outlined capital raise plans to the extent of Rs.300-350 crore over the next few months. However, given its current high leverage and unprovided NPAs, ICRA believes the bank' capital profile, even post the proposed equity infusion in FY2020, would remain stretched. ICRA notes that JSFB's ability to raise further capital would be somewhat restricted to comply with regulatory shareholding requirements. Thus, going forward, JSFB would have to depend on its internal generation to grow its business, which is likely to keep its gearing at high levels vis-à-vis its peers.

Liquidity Position

JSFB's funding profile comprises borrowings from banks and financial institutions, long-term debentures and deposits. JSFB's liquidity has been supported by healthy traction in deposit mobilization by the bank over the last few months. As on March 31, 2019, JSFB had a deposit base of Rs.4,174 crore – up from Rs.443 crore as on June 30, 2018. Given that, the share of deposits with ticket size more than Rs.1.0 crore and shorter-term deposits remains high; ICRA therefore notes that the bank would have to enhance the deposit profile by increasing the share of longer term retail deposits. Additionally, its ability to secure refinancing lines from NABARD and SIDBI would also be crucial from a liquidity perspective. The bank, apart from the deposits raised, has not been able to source funding or refinance from other sources over the last 12-18 months. Consequently, its cash and liquid investments (Excluding the regulatory requirement) stood modest at about Rs.500 crore; the bank has undrawn interbank lines of Rs.400-450 crore.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Banks
Parent/Group Support	NA
Consolidation / Standalone	Rating is based on standalone financial statements of the 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 licence 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 45.37% stake in JSFB as on February 28, 2019.

JSFB has a diversified presence across 18 states and 2 union territories in India, with a portfolio of Rs.6,520 crore as on March 31, 2019. The bank raised Rs. 1,636 crore equity during FY2018 and Rs.1,086 crore during FY2019 from existing and new investors.

For FY2019, the bank has reported net loss of Rs.1,949.1 crore on managed portfolio of Rs.6,520.0 crore as on March 31, 2019 against net loss of Rs. 2,503.8 crore on a total managed asset base of Rs. 10,022.4 crore as on March 31, 2019.

Key Financial Indicators

JSFB	FY 2017*	FY 2018	FY2019
Total Income	2,978	1,597	1,368
Profit After Tax/ (loss)	170	(2,504)	(1,949.1)
Net worth	2,397	1,529	673.6
Managed Portfolio	12,551	7,636	6,520.0
Total Managed Assets	15,730	10,022	9,749
Return on Managed Assets	1.2%	(19.4%)	(19.6%)
Return on Net worth	9.4%	(127.6%)	(177.0%)
Gearing	4.97	5.01	12.30
Gross NPA%	0.7%	42.2%	8.4%
Net NPA%	0.5%	27.7%	4.6%
CAR%	23.9%	34.7%	18.8%

*Amount in Rs. crore; * as an NBFC-MFI*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Jul 2019	FY2019		FY2018			FY2017
						Mar 2019	Jul 2018	Dec 2017	Aug 2017	Jun 2017	Mar 2017
1	Bank Facilities	Long-term	82.66	82.66	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	ICRA]A Stable)	[ICRA]A+ (Negative)
2	NCD	Long-term	1,114.00	1,114.00	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	ICRA]A Stable)	[ICRA]A+ (Negative)
3	Subordinated Debt	Long-term	751.00	626.00	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA] A- (Negative)	[ICRA]A (Negative)	ICRA]A Stable)	[ICRA]A+ (Negative)
4	Subordinated Debt	Long-term	225.00	225.00	[ICRA]BBB- (Negative)	-	-	-	-		-
4	Commercial Paper Programme	Short term	900.00	-	-	-	[ICRA] A2+; withdrawn	[ICRA] A2+	[ICRA]A1	ICRA]A1+	[ICRA]A1+
5	NCD	Long-term	238.00	-	-	-	[ICRA]A- (Negative); withdrawn	[ICRA] A- (Negative)	[ICRA]A (Negative)	ICRA]A Stable)	[ICRA]A+ (Negative)
6	NCD	Long-term	1,451.00	-	[ICRA]BBB- (Negative); withdrawn	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	ICRA]A Stable)	[ICRA]A+ (Negative)

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 www.icra.in

Annexure-1: Instrument Details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount	Current Rating and Outlook
NA	Term Loan 8	29-Aug-17	NA	29-Aug-20	82.66	[ICRA]BBB- (Negative)
INE953L08220	NCD	30-Nov-16	10.15%	30-Apr-20	25.00	[ICRA]BBB- (Negative)
INE953L08238	NCD	30-Nov-16	10.15%	29-Nov-19	100.00	[ICRA]BBB- (Negative)
INE953L08121	NCD	14-Jun-16	Zero Coupon	15-Jul-19	50.00	[ICRA]BBB- (Negative)
INE953L08246	NCD	21-Dec-16	10.43%	20-Dec-19	328.00	[ICRA]BBB- (Negative)
INE953L08253	NCD	21-Dec-16	10.76%	21-Dec-20	338.00	[ICRA]BBB- (Negative)
INE953L08261	NCD	21-Dec-16	11.10%	21-Dec-21	338.00	[ICRA]BBB- (Negative)
INE953L08287	NCD	15-May-17	10.10%	15-May-20	25.00	[ICRA]BBB- (Negative)
INE953L08030	Sub debt	22-Dec-15	13.80%	22-Dec-22	330.00	[ICRA]BBB- (Negative)
INE953L08048	Sub debt	30-Dec-15	14.00%	30-Jun-21	40.00	[ICRA]BBB- (Negative)
INE953L08055	Sub debt	21-Mar-16	14.20%	19-May-23	80.00	[ICRA]BBB- (Negative)
INE953L08063	Sub debt	28-Mar-16	13.35%	27-May-22	26.00	[ICRA]BBB- (Negative)
INE953L08097	Sub debt	7-Jun-16	13.40%	7-Jun-22	50.00	[ICRA]BBB- (Negative)
INE953L08105	Sub debt	7-Jun-16	13.40%	7-Dec-22	50.00	[ICRA]BBB- (Negative)
INE953L08113	Sub debt	7-Jun-16	13.40%	7-Jun-23	50.00	[ICRA]BBB- (Negative)
NA	Sub debt	26-Aug-15	14.25%	25-Aug-22	50.00	[ICRA]BBB- (Negative)
NA	Sub debt	29-Dec-15	14.00%	29-Dec-22	75.00	[ICRA]BBB- (Negative)
Yet to be placed	Sub debt	-	-	-	225.00	[ICRA]BBB- (Negative)

Source: JSFB

Annexure - 2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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