January 29, 2020

Jana Small Finance Bank Limited: Rating upgraded to [ICRA]BBB; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank lines	82.66	0.00	[ICRA]BBB (Stable) / Revised from [ICRA]BBB- (Negative); Rating withdrawn
Non-Convertible Debentures	726.00	726.00	[ICRA]BBB (Stable) / Rating revised from [ICRA]BBB- (Negative)
Non-Convertible Debentures	388.00	0.00	[ICRA]BBB (Stable) / Revised from [ICRA]BBB- (Negative); Rating withdrawn
Subordinated Debt	701.00	701.00	[ICRA]BBB (Stable) / Rating revised from [ICRA]BBB- (Negative)
Subordinated Debt	275.00	0.00	[ICRA]BBB (Stable) / Revised from [ICRA]BBB- (Negative); Rating withdrawn
Total	**2,172.66**	**1,427.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating revision considers the steady deposit scale-up by Jana Small Finance Bank Limited (JSFB) and with its asset quality of post-demonetisation microfinance book being under control. The bank's deposit mobilization during 9MFY2020 has been healthy and stood at Rs.9,052.0 crore (term deposits of Rs.8,320.0 crore) as on December 31, 2019 (compared to Rs.4,198.7 crore as on March 31, 2019) with improvement in tenor as well as granularity profile. The bank however would have to further enhance the deposit profile by increasing the share of retail / low cost deposits and, secure funding lines from re-finance institutions, which would be crucial from a liquidity and profitability stand point. ICRA notes that the asset quality of the portfolio originated post demonetization (about 97% of the advances as of December 2019) remains under control; gross non-performing assets (GNPA) in the post-demonetisation book stood at 1.2% (overall GNPA at 3.4% as in December 2019). ICRA however notes that while GNPA in the microfinance book originated post demonetization is low (0.9% in November 2019), quality in new asset segments, especially micro and SME loans, is relatively weaker (3.5% as of November 2019). Also, the seasoning in these new asset segments is quite low. The bank is reporting an improving quarter-on-quarter earnings performance in 9MFY2020, ICRA however notes that the bank has unprovided NPAs of about Rs.59.0 crore as of December 2019 from the pre-demonetisation book, could exert some pressure on near term profitability. Recovery from written-off accounts could however uplift profitability. Ability to keep incremental asset quality, especially in the new asset segments, under control and improvement in its deposit profile would be crucial for incremental earnings performance.

JSFB's capitalization characterized by high gearing[1] of 11.1x; capital adequacy ratio stood at 21.0% (Tier-I at 14.5%) as on December 31, 2019 post equity infusion of Rs.339.0 crore in Q3 FY2020. ICRA takes note of the demonstrated support from the key shareholders, which has cushioned the capitalization, despite sizeable net losses over the last two-three years. Given the envisaged portfolio growth, it is crucial for the bank to keep leverage under control and maintain a comfortable buffer over regulatory capital adequacy requirements going forward.

The rating continues to factor in JSFB's geographically diversified portfolio and its experienced management team and board profile. The rating continues to factor in the risks associated with the unsecured nature of microfinance loans, credit risk emerging from the marginal borrower profile and other socio-political and operational risks inherent to the microfinance business, which currently accounts for bulk of its exposures. However, the Bank is taking initiatives to grow the secured book and the share of this book has increased to 23% in Dec-19 from 10% in Dec-18.

The Stable outlook on the long-term rating reflects ICRA's belief that the bank would achieve an overall good quality portfolio growth and, register a steady improvement in its liability profile and profitability as the business scales up.

Key rating drivers and their description

Credit strengths

Support from key shareholders, experienced Board and senior management – Over the last three years, ICRA notes that 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 9M 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. ICRA notes that the bank does not envisage any sizeable capital infusion in the near term given its plan for an initial public offering (IPO) by Q3 / Q4 FY2021.

JSFB has a five-member board with three independent directors. It also has an experienced senior management team with significant expertise in banking and other financial services. ICRA however 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.

Post demonetisation asset quality under control; performance of new asset classes remains a key monitorable – The bank's asset quality metrics deteriorated significantly in the quarters subsequent to demonetisation with 90+ delinquencies peaking at 43.4% in May 2018. Consequently, the credit costs (as % of average total assets) for FY2018 and FY2019 were high at 12.0% and 14.2% respectively. However, demonetisation related delinquencies having largely been provided for / written-off over the last two-three years, the bank's demonetisation related unprovided NPA has declined to about Rs.59 crore (out of total NNPA of Rs.149.0 crore as on December 31, 2019). During FY2018-H1 FY2020, the bank's total write-off of was around Rs.3,000 crore.

As on December 31, 2019, the total advances of Rs. 9,981 crore comprised primarily of portfolio generated post January 2017 with the pre-demonetization related advances have shrunk significantly at Rs.337 crore. Out of the same, the non-performing assets (NPA) stood at Rs.227.0 crore carrying provisions to the extent of Rs.168 crore. The NPA in the portfolio originated post January 2017 stood at Rs.116 crore on a portfolio of Rs.9,644 crore as on December 31, 2019.

The performance of the portfolio originated post demonetization is good thereby providing comfort on incremental asset quality. However, ICRA notes that the bank has witnessed considerable scale up in non-microfinance products where its ability to maintain good asset quality would be critical – especially given the high-ticket sizes in certain product segments and the resultant credit concentration. The bank has witnessed steep growth in MSE loans and Affordable Housing loans over the last few quarters. ICRA notes that the delinquencies in MSE portfolio generated post demonetization remains high with GNPA at 3.5% as on November 30, 2019 (12.4% of the portfolio as in November 2019) because of slippages in some large ticket loans; however, with recovery efforts by the management, the same has been resolved subsequently. Given the management's intent to scale up the secured advances portfolio to about 30% (23% as in November 2019) over the near term, the non-microfinance portfolio is likely to continue to report robust growth.

Commensurate scale up in deposit base; however, further improvement in deposit profile and ability to diversify borrowing profile is crucial in view of growth plans – The bank's deposits stood at Rs.9,052 crore (term deposits of Rs.8,320.0 crore) as on December 31, 2019 (compared to Rs.4,198.7 crore as on March 31, 2019) with improvement in tenor profile as well as granularity. Growth in deposits has also been supported by the 'Scheduled Bank' status received by JSFB in August 2019. The deposit maturity profile has improved with 88% of the term deposits in the >180 days tenor bracket and 67.0% of the deposits with more than 1-year tenor. Also, the granularity of deposits has improved with 52% of deposits with ticket size less than Rs.1.0 crore (18% in June 2018) and 58% (25% in June 2018) with ticket size less than Rs.2.0 crore as of December 2019.

Further, about 32% of the total term deposits (as in September 2019) was from senior citizens, which are generally sticky in nature thereby supporting stability of deposits. As on December 31, 2019, CASA accounted for 8.1% of its total deposits; improvement in the share of the same would be crucial from long-term liquidity and cost of funding perspective. However, as the bank expands its liability-accepting branch footprint, the profile of deposits is expected to improve. As of December 2019, JSFB had converted about 275 branches into liability-accepting outlets and expects to convert another 100 branches by March 2020 (out of 576 branches). JSFB's deposit profile is also geographically diversified, as of September 2019, deposits from its largest state accounted for 14% of its total deposits. In terms of deposit concentration, as of September 2019, the top 20 depositors accounted for about 16% of its total deposits. Going forward, the bank's ability to maintain good renewal rates in the deposits and sustain the growth would be crucial.

Credit challenges

High leverage; regular equity infusion providing support – As on September 30, 2019, JSFB's capital adequacy ratio stood at 15.5% (Tier-I at 10.0%) against the regulatory minimum of 15.0% owing to delay in capital raise and net losses impacting the capital levels. While subsequently the bank has raised equity to the tune of Rs.339.0 crore in Q3 FY2020, which has uplifted the CAR to 21.0% as of December 2019, the bank's gearing levels continue to remain high (16.8x as on September 30, 2019 considering deposits as debt and 11.1x as on December 31, 2019). Further, ICRA notes that the capitalization levels have also been supported to some extent by regular IBPC (Inter-Bank Participatory Certificates) transactions undertaken by JSFB. During H1 FY2020, the bank had done IBPC transactions amounting to Rs.708.0 crore.

Over the past three years, the bank raised Rs.1,636 crore of capital during FY2018, Rs.1,086 crore during FY2019, and Rs.339 crore in 9M FY2020, from existing and new investors, which has supported capitalization to some extent. However, going forward, JSFB's ability to raise timely capital in line with envisaged growth would be crucial. While the bank has not envisaged any further capital raise in the near term, ICRA takes note of the planned IPO in Q3 / Q4 FY2021. ICRA also takes note of the increase in leverage levels in the holding companies JCL (Rs.150.00 crore as on September 30, 2019) and JHL (Rs.958.00 crore as on September 30, 2019) and as JHL continues to not meet the consolidated regulatory capital adequacy and minimum core capital requirements.

Notwithstanding the improvement, near-term profitability to remain subdued – JSFB's profitability has been impacted over the last two-three years on account of weak asset quality impacting income, low operating efficiencies and high credit costs. Consequently, during FY2018, FY2019 and H1 FY2020, the bank reported net loss of Rs.2,503.8 crore, Rs.1,949.1 crore and Rs.54.3 crore respectively. During H1 FY2020, the bank's pre-provision operating losses shrunk significantly to Rs.16.0 (Rs.590.5 crore in FY2019)[1]. The improvement in pre-provision operating performance was driven by various cost saving measures undertaken by the management and scale up in performing portfolio. Recoveries from the written off accounts (Rs.109.2 crore in H1FY2020 vis a vis Rs.14.0 crore in FY2019) also supported net profitability. JSFB's credit provisions for H1 FY2020 stood significantly lower at Rs.148 crore (compared to Rs.1,358.6 crore in FY2019) with demonetisation related delinquencies having been largely provided for. The bank is reporting an improving earnings performance in Q3FY2020; ICRA however notes that the bank has unprovided NPAs of about Rs.59.0 crore as of December 2019 from the pre-demonetisation book could exert some pressure on near term profitability. Given the sizeable deferred tax assets (Rs.1,085.9 crore as on September 30, 2019), the bank's tax liability over the next few years is expected to remain low, which would support net profits. Going forward, however, as JSFB expands its banking outlet footprint, its ability to protect operating margins and keeping asset quality under control would be crucial.

Ability to scale up new businesses and manage risks associated with the microfinance sector – JSFB commenced operations as a small finance bank from March 28, 2018; however, unsecured / microfinance loans continues to remain the mainstay of the bank accounting for 79.9% of its portfolio as on September 30, 2019 with the balance being constituted by MSE loans (10.8%), Affordable Housing (4.2%), Gold loans (1.4%) and others (3.6%). The bank's ability to scale up its exposure to micro, small, and medium enterprises and housing finance, which would support portfolio diversification over the medium term, remains to be seen. The bank has envisaged a gross AUM of Rs.14,000 crore by March 2021 compared to gross loan portfolio of Rs.9,981.0 crore as on December 31, 2019.

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 as such issues have largely been region specific so far. Going forward, JSFB's ability to expand into new geographies by on-boarding borrowers with good credit history along with recruitment and retaining of employees, especially in view of the attrition observed at the field level, would be key for managing the high envisaged growth.

Liquidity position: Adequate

JSFB's asset liability maturity profile is characterised by cumulative positive mismatches in all buckets in the < 1 year category. As on September 30, 2019, the bank's unencumbered cash and liquid investment balances stood at Rs.470.5 crore. Its liquidity profile is further uplifted by improving deposit profile with increasing share of retail deposits (62% with ticket size less than Rs.2.0 crore as on September 30, 2019) and undrawn interbank lines to the extent of Rs.425 crore. However, ICRA notes that the bank would have to continue to diversify its deposit mix and increase the share of the relatively sticky low-cost deposits from a long-term liquidity perspective.

Rating sensitivities

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

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

[1] *Excluding recoveries from bad debt of Rs.109.2 crore in H1 FY2020 and Rs.14.0 crore in FY2019.*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Banks Policy on Withdrawal and Suspension of Credit Ratings
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial statements of JSFB

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 42.1% stake in JSFB as on December 31, 2019.

JSFB has presence across 21 states and union territories in India, with a gross portfolio of Rs.9,981.0 crore as on December 31, 2019. The bank raised Rs.1,636 crore equity during FY2018, Rs.1,086 crore during FY2019, and Rs.339 crore in 9M FY2020 from existing and new investors.

For 9M FY2020, the bank has reported net loss of Rs.21.5 crore on managed portfolio of Rs.9,981.0 crore as on December 31, 2019. In FY2019, JSFB reported a net loss of Rs.1,949.1 crore on a total managed portfolio of Rs.6,519.6 crore compared to a net loss of Rs.2,504.0 crore on a total managed portfolio of Rs.7,636.0 crore during FY2017.

Key financial indicators

JSFB	FY 2018	FY 2019	H1 FY2020*
Total Income	1,597	1,354.3	977.3
Profit After Tax/ (loss)	-2,504	-1,949.1	-54.3
Net worth	1,529	673.6	620.4
Managed Portfolio	7,636	6,519.6	8,549.8
Total Managed Assets	10,022	9,748.8	12,232.1
Return on Managed Assets	-19.4%	-19.6%	-1.0%
Return on Net worth	-127.6%	-177.0%	-16.8%
Gearing	5.01	12.6	16.8
Gross NPA%	42.2%	8.4%	4.6%
Net NPA%	27.7%	4.6%	2.0%
CAR%	34.7%	18.8%	15.5%

*Source: Bank financial statements; Note: Amounts in Rs. Crore; *Unaudited*

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												
							FY2019		FY2018			FY2017							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Jan 29 2020	Jul 09, 2019	Mar 18, 2019	Jul 20, 2018	Dec 18, 2017	Aug 04, 2017	Jun 30, 2017	Mar 21, 2017	Jan 27, 2017	Dec 23, 2016	Aug 24, 2016	Jun 21, 2016	Jun 02, 2016	Apr 06, 2016
1	Bank Facilities	Long-term	0.00	0.00	[ICRA]BBB (Stable) Withdrawn	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	NCD	Long-term	726.00	726.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	NCD	Long-term	388.00	0.00	[ICRA]BBB (Stable) Withdrawn	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
4	Subordinated Debt	Long-term	701.00	701.00	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA] A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
5	Subordinated Debt	Long-term	275.00	0.00	[ICRA]BBB (Stable) Withdrawn	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA] A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
4	Commercial Paper	Short term	0.00	-	-	-	-	[ICRA] A2+; withdrawn	[ICRA] A2+	[ICRA] A1	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1

Amount in Rs. crore

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 (Stable) / Rating withdrawn
INE953L08220	NCD	30-Nov-16	10.15%	30-Apr-20	25.00	[ICRA]BBB (Stable)
INE953L08238	NCD	30-Nov-16	10.15%	29-Nov-19	10.00	[ICRA]BBB (Stable) / Rating withdrawn
INE953L08121	NCD	14-Jun-16	Zero Coupon	15-Jul-19	50.00	[ICRA]BBB (Stable) / Rating withdrawn
INE953L08246	NCD	21-Dec-16	10.43%	20-Dec-19	328.00	[ICRA]BBB (Stable) / Rating withdrawn
INE953L08253	NCD	21-Dec-16	10.76%	21-Dec-20	338.00	[ICRA]BBB (Stable)
INE953L08261	NCD	21-Dec-16	11.10%	21-Dec-21	338.00	[ICRA]BBB (Stable)
INE953L08287	NCD	15-May-17	10.10%	15-May-20	25.00	[ICRA]BBB (Stable)
INE953L08030	Sub debt	22-Dec-15	13.80%	22-Dec-22	330.00	[ICRA]BBB (Stable)
INE953L08048	Sub debt	30-Dec-15	14.00%	30-Jun-21	40.00	[ICRA]BBB (Stable)
INE953L08055	Sub debt	21-Mar-16	14.20%	19-May-23	80.00	[ICRA]BBB (Stable)
INE953L08063	Sub debt	28-Mar-16	13.35%	27-May-22	26.00	[ICRA]BBB (Stable)
INE953L08097	Sub debt	7-Jun-16	13.40%	7-Jun-22	50.00	[ICRA]BBB (Stable) / Rating withdrawn
INE953L08105	Sub debt	7-Jun-16	13.40%	7-Dec-22	50.00	[ICRA]BBB (Stable) / Rating withdrawn
INE953L08113	Sub debt	7-Jun-16	13.40%	7-Jun-23	50.00	[ICRA]BBB (Stable) / Rating withdrawn
NA	Sub debt	26-Aug-15	14.25%	25-Aug-22	50.00	[ICRA]BBB (Stable) / Rating withdrawn
NA	Sub debt	29-Dec-15	14.00%	29-Dec-22	75.00	[ICRA]BBB (Stable) / Rating withdrawn
INE953L08295	Sub debt	19-Jun-19	14.50%	29-Jun-25	175.00	[ICRA]BBB (Stable)
INE953L08303	Sub debt	10-Jul-19	13.15%	10-Jul-25	50.00	[ICRA]BBB (Stable)

Source: JSFB

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

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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.

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