March 22, 2022

Jana Small Finance Bank Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated Debt	661.00	406.00	[ICRA]BBB (Stable); reaffirmed
Subordinated Debt	40.00	0.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
Subordinated Debt	0.00	50.00	[ICRA]BBB (Stable); assigned
Total	**701.00**	**456.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating considers the improvement in Jana Small Finance Bank (JSFB) deposit profile in terms of the deposit tenure as well its granularity. While ~97% of the term deposits had tenure of more than 1 year (~55% of the deposits had tenure of more than 2 years), 62% of the deposits had a ticket size of less than Rs. 1.0 crore as of December 2021. The bank's current account and savings account (CASA) ratio also improved to ~22.4% in December 2021 from ~14.4% in January 2021. The overall deposit base grew by 13.7% on a year-on-year (YoY) basis to Rs. 12,957 crore as on December 31, 2021. However, JSFB's asset quality was impacted in the current fiscal by the second wave of the Covid-19 pandemic. ICRA takes note of the increase in overdues between March 2021 and December 2021, wherein 90+ days past due(dpd) increased to 7.1% in December 2021 from 6.7% in March 2021. Like other peers, JSFB is faced with increased asset quality pressures with Covid-19 disruptions leading to the restructuring of some of its exposures (standard assets re-structuring stood at 5.3% of the portfolio outstanding as of December 2021).

The bank has steadily increased its secured exposures largely loans to micro and small enterprises, micro-housing loans and affordable housing loans, which together accounted for 47.5% of the overall portfolio as on December 2021 vis-à-vis 34% as of December 2020. However, microfinance and other unsecured loans contribute to 52.5% of its portfolio as of December 2021. The rating continues 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 capitalisation is characterized by high gearing[1] of 17.1x as of December 2021.The capital adequacy ratio stood at 15.3% (Tier I capital at 11.7%) as on December 31, 2021, which is marginally higher than the regulatory requirement of 15%. ICRA takes note of the demonstrated sustained support from the key shareholders, who have supported the capitalisation over the last few years. The envisaged portfolio growth and the likely asset quality pressures over the near term, in turn may impact near-term earnings. Therefore, it is crucial for the bank to raise capital to create adequate buffer over regulatory capital requirements. The bank could not complete its initial public offering (IPO) process in line with the small finance bank (SFB) license requirement (by March 2021), because of the covid-19 related disruptions. The bank is in the process of raising equity in the near term and will then go ahead with the IPO process; a timely completion of the capital raising process would be crucial from a rating perspective.

[1] *(total debt, including deposits + assigned book)/net worth*

ICRA has reaffirmed and withdrawn the rating on the Rs.40.0 crore subordinated debt 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 of credit ratings

Key rating drivers and their description

Credit strengths

Improvement in deposit profile: The bank's deposits stood at Rs. 12,957 crore (term deposits of Rs. 10,058 crore) as of December 31, 2021 (Rs. 11,391 crore as on December 31, 2020 and Rs.4,198.7 crore as on March 31, 2019). It had converted all its branches into liability accepting branches before the stipulated deadline in March 2021. The deposit maturity profile has improved with about 97% of the term deposits having a tenor of more than 1-year as of December 2021 (79% of the term deposits had a tenor of more than 1-year as of September 2020 and 67% as of December 2019). Also, the granularity of the deposits has improved with 62% of the deposits having ticket size of less than 1.0 crore and 72% with a ticket size of less than 2.0 crore (59% of deposits being of ticket size less than Rs.1.0 crore and 66% with a ticket size of less than Rs.2.0 crore as of September 2020). As of December 2021, CASA deposits accounted for 22.4% of the total deposits (9.7% as of September 2020 and 8.1% in December 2019). In terms of the bank's overall liability profile, deposits accounted for 67.9% of its total debt (deposits + borrowings) as on December 31, 2021. The bank had maintained sizeable surplus liquidity post the onset of the pandemic in 2020 and has focused on improving its deposit profile. ICRA notes that, CASA deposits, after growing between March 2021 and June 2021, has remained stable between July 2021 and December 2021 at ~22%, while overall deposits also remained stable at ~Rs.13,000 crore since July 2021. Going forward, the bank's ability to achieve sustained deposit growth and improvement in the deposit profile would be crucial.

Increase in share of secured advances: The share of the microfinance portfolio (group loans, agricultural loans and individual loans), which are unsecured, has reduced from 75% (of the gross portfolio) in March 2020 to 60% in March 2021 and further to ~53% in December 2021. The non-microfinance portfolio of the bank includes secured business loans, micro and small enterprise loans, affordable housing loans, micro housing, gold loans, loans to non-banking financial companies (NBFCs) etc., the share of which stood at about 47% as of December 2021. The secured business loans, loans to micro and small enterprises, micro housing and affordable housing loans, which are backed by mortgage, together accounted for 35.6% of the gross portfolio as of December 2021. Loan to NBFCs stood at 7.0% of the gross portfolio and are largely extended under the Credit Guarantee Scheme for Microfinance Institutions (CGSMFI). The share of the gold loan segment has reduced to 1.9% as of December 2021 (from 5.0% in March 2021) on account of the gold auctions undertaken in the recent past; however, the share of gold loans is expected to increase in the near term.

The microfinance portfolio of the bank is expected to remain at current levels (in absolute terms) in the near to medium term, while the increase in the non-microfinance advances would lead to a reduction in the share of the microfinance book going forward. The share of the secured portfolio is expected to be about 50% by March 2022 and increase steadily going forward as the bank continues to focus on these products and is expected to increase further in next few years.

Support from key shareholders, experienced Board and senior management: The bank received a total equity capital infusion of Rs.3,126 crore since March 2017 (Rs.1,636 crore equity during FY2018, Rs.1,086 crore during FY2019, Rs.339 crore in FY2020 and Rs. 66 crore between January and February 2022). Some of the key stakeholders have also invested in debt of the holding companies (Jana Holdings Limited [JHL] and Jana Capital Limited [JCL]), for ensuring compliance of various regulatory shareholding requirements, which was subsequently infused as capital into JSFB. Some of the key shareholders, who have also invested in the debt of the holding companies include TPG, GIC and Manipal group who held about 82% of the total debt in JHL and account for 100% of the total debt in JCL. TPG has subordinated its debt exposures vis a vis other lenders to facilitate debt raise programmes of the holding companies. This aided JSFB in growing its portfolio while keeping in capitalization levels above regulatory levels, despite substantial losses post demonetisation, delay in the IPO process and, the subdued earnings performance in the recent past.

JSFB has a nine-member board with six independent directors. The board has eleven 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 adequate expertise in banking and other financial services. ICRA however takes note of the 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 and maintaining a stable management team would be critical going forward.

Credit challenges

High leverage; timely capital raise in the near term crucial: – As on December 31, 2021, JSFB's capital adequacy ratio stood at 15.30%, which was marginally above the regulatory requirement of 15.0%. CRAR stood between 15.2%-15.9% over the last three quarters. In the past, the capital profile of the bank has been supported by regular equity infusion. Over the past three years, the bank raised Rs.1,636 crore equity during FY2018, Rs.1,086 crore during FY2019, and Rs.339 crore in FY2020 from existing and new investors. The bank has further raised equity of Rs.66 crore from JHL in January 2022 and February 2022. The bank's gearing levels continue to remain high (gearing, considering deposits as debt, stood at 17.1x as on December 31, 2021 and at 15.5x as on March 2021). ICRA notes that the capitalization levels have also been supported to some extent by regular IBPC (Inter-Bank Participatory Certificates) transactions undertaken by the bank. As on December 31, 2021, the bank had outstanding IBPC of Rs. 1,603 crore (Rs.705 crore as of December 2020). The Bank also augmented Tier-2 capital by Rs. 50 crore in August 2021 and Rs. 75 crore in December 2021.

ICRA further takes note of the weak capitalization profile of JHL and that it continues to not meet the consolidated regulatory capital adequacy, standalone leverage levels and minimum core capital requirements. ICRA notes that JHL is in the process of merging with JCL, subject to the various approvals.

It is critical for JSFB to raise equity capital in a timely manner to support growth as internal generation has been quite modest. The bank could not complete its IPO process in line with the SFB license requirement (by March 2021), because of the covid-19 related disruptions. The bank is in the process of raising equity in the near term and then proceed with the IPO process; a timely completion of the capital raise process would be crucial from a rating perspective.

Asset quality impacted by second wave of the pandemic –JSFB's 0+ days past due (dpd) and 90+ dpd increased to 11.5% and 6.7% in March 2021 vis a vis 3.8% and 2.8% respectively in March 2020. The asset quality was impacted by the first wave and the second wave of the pandemic with the 0+ and 90+dpd weakening further to 23.8% and 8.4% as of June 2021. The same however improved and stood at 14.7% and 7.1% as of December 2021. The bank's standard re-structured portfolio stood at 5.3% of its overall portfolio as on December 31, 2021.

ICRA notes that the delinquencies are relatively lower in the non-microfinance book with 0+ and 90+ at 8.3% and 2.6% as on December 2021 (0+ and 90+ stood at 20.1% and 11.1% for the microfinance). The above is partly attributed to the reduction in the microfinance portfolio from the peak of about Rs. 8,500 crore in March 2020, while the non-microfinance book more than doubled from the March 2020 levels. The average tenure of the non-microfinance loans (excluding loans to NBFCs) is about 8-10 years, indicating relatively limited seasoning of the present book. Ability to maintain good asset quality would be critical, especially given the limited seasoning and higher-ticket sizes (average ticket size is in the range of Rs.10-30 lakhs and LTVs in the range of 40% to 50%).

The bank effected incremental credit costs/ provisions of Rs. 379 crore (provisional) in 9M FY2022 in view of the Covid-19-related business disruptions and the possible impact on its asset quality. ICRA notes that the overall provisions in relation to the AUM is currently moderate at Rs.402 crore (2.8% of the portfolio as of December 2021). As the bank has expanded its presence to over 700 branches and is the process of augmenting its digital capabilities and product offerings, managing operational risks on account of the above would also be crucial for improving its asset quality.

Profitability remains subdued: The bank's net profits remain subdued but improved to Rs.84.3 crore (Return on Managed Assets(RoMA), 0.5%) in FY2021 from Rs.30.1 crore (0.2%) in FY2020, supported by the various cost control measures undertaken by management, even as the credit costs went up (to 1.8% in FY2021 from 0.6% in FY2020) on account of the pandemic. For the 9M FY2022, also the bank was faced with a higher credit cost on account of the second wave of the pandemic, which led to a modest Rs. 4.1 crore net profit for the period. The overall credit cost stood at 2.5% (annualised) of the average managed assets in 9M FY2022 (1.8% in FY2021). Considering the moderate provisions, it would be critical to make recoveries from the current overdues and control the incremental slippages.

Liquidity position: Adequate

As per the Asset Liability Management (ALM) statement as on December 31, 2021, there were no cumulative mismatches in the upto 1-year bucket. The bank's total deposits stood at Rs. 12,957 crore as on December 2021 (term deposits of Rs. 10,058 crore) as on December 31, 2021 (compared to Rs.11,391 crore as on December 31, 2020) with better tenure profile as well as granularity vis a vis a year ago. The bank had sanctioned but un-utilised interbank lines of Rs. 941 crore as on January 31, 2022. As on January 31, 2022, it had excess liquidity of Rs.2,455 crore. The liquidity coverage ratio remained at 710% which is well above the stipulated 100% requirement for the fortnight ended January 31, 2022. The Bank's liquidity profile is also well supported by long term re-finances secured during the current and previous financial years.

Rating sensitivities

Positive Factors – ICRA could upgrade JSFB's rating if its capital profile improves and it maintains an adequate buffer over the regulatory requirement on a sustained basis. Sustained improvement in earnings and asset quality profile would also positively impact the rating.

Negative Factors – Inability to improve the capital profile from current levels or a sustained weakening in asset quality impacting earnings profile would negatively impact the rating.

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	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of Jana Small Finance Bank

About the company

Jana Small Finance Bank Limited (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 42.84% stake in JSFB as on February 28, 2022.

JSFB has a diversified presence across 23 States and Union territories across the country, with a gross portfolio of Rs. 14,115 crore as on December 31, 2021 (AUM stood at Rs. 13,784 crore as on September 30, 2021 and Rs. 11,751 crore as on December 31, 2020).

Key financial indicators (audited)

Jana Small Finance Bank Limited	FY2020	FY2021	9M FY2022
Total income	2,255.1	2,680.0	2,255.7
Profit after tax/ (loss)	30.1	84.3	4.1
Net worth	1,043.5	1,126.9	1,131.3
Total managed portfolio	11,118.3	11,688.9	12,209.3
Total managed assets	15,306.1	19,158.2	21,019.1
Return on managed assets	0.2%	0.5%	0.0%
Return on net worth	3.5%	7.8%	0.5%
Gearing (times)	13.4	15.5	17.1
Gross NPA (%)*	2.8%	6.7%	7.1%
Net NPA (%)*	1.3%	4.8%	4.9%
Capital adequacy ratio (%)	19.3%	15.5%	15.3%

*Note: Amount in Rs. crore; All calculations are as per ICRA research; *on an AUM basis including IBPC transactions. All the numbers are as disclosed in the respective years financial statement and does not consider any re-statement.*
Source: JSFB, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Mar-22-2022	FY2021	FY2020		FY2019		
						Mar-23-2021	Jan-29-2020	Jul-9-2019	Mar-18-2019	Jul-20-2018	Jun-11-2018
1	Subordinated Debt	Long-term	40.00	0.00	[ICRA]BBB (Stable); reaffirmed and withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]A-(Negative)
2	Subordinated Debt	Long-term	406.00	406.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]A-(Negative)
3	Subordinated Debt	Long-term	50.00	50.00	[ICRA]BBB (Stable)	-	-	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Subordinated Debt	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
INE953L08329*	Subordinated Debt	22-Dec-15	13.80%	07-Jul-27	75.00	[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	29-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)
INE953L08048	Subordinated Debt	30-Dec-15	14.00%	30-Jun-21	40.00	[ICRA]BBB (Stable); reaffirmed and withdrawn
INE953L08311	Subordinated Debt	31-Aug-21	13.50%	30-Nov-26	50.00	[ICRA]BBB (Stable)

Source: *Company; change in ISIN to INE953L08329 from INE953L08030; maturity date has been revised to July 07, 2027 from December 22, 2022*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not Applicable		

ANALYST CONTACTS

Karthik Srinivasan
- 91 22 6114 3444
karthiks@icraindia.com

A M Karthik
-91 44 4596 4308
a.karthik@icraindia.com

Deepali Panda
- 91 80 4332 6400
deepali.panda@icraindia.com

Shruti Nitin Padlekar
91 22 6114 3400
shruti.padlekar@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
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches