December 30, 2022

Jana Small Finance Bank Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt	430.00	430.00	[ICRA]BBB (Stable); reaffirmed
Subordinated debt	26.00	00.00	[ICRA]BBB (Stable); reaffirmed & withdrawn
Total	**456.00**	**430.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in Jana Small Finance Bank Limited's (Jana SFB) experienced board and management team, support from key shareholders, and the improvement in its deposit profile. The rating also factors in the improving diversification in its loan book with the bank aiming to expand its share of secured assets to 60% by the end of FY2023 from 54% as on September 30, 2022 (50.4%, 39.8% and 25.2% as of March 2022, March 2021 and March 2020, respectively). The unsecured portion of its portfolio remains sizable, and the rating continues to take into consideration the risks associated with the same. Further, the rating factors in the marginal profile of the borrowers, who are susceptible to income shocks, and the political and operational risks inherent in the microfinance business.

Jana SFB's funding profile remains diversified with good traction in deposit mobilisation in H1 FY2023 and FY2022. The share of current account and savings account (CASA) deposits also increased to 22.9% as on September 30, 2022 from 22.5% as on March 31, 2022 and 16.8% as on March 31, 2021. Jana SFB's liquidity profile remains adequate, reflected by positive cumulative mismatches in the bank's asset liability management (ALM) statement up to 1-year bucket.

The rating factors in Jana SFB's capitalisation profile with a total capital-to-risk weighted assets ratio (CRAR) of 16.4% in H1 FY2023 (15.3% as of March 2022 and 15.5% as of March 2021) against the regulatory requirement of 15.0%. Jana SFB could not complete its initial public offering (IPO) process by March 2021, in line with the licence requirement for small finance banks (SFB), because of the Covid-19-related disruptions. However, it is expected to restart the process of listing its shares on the stock exchange in Q4 FY2023 in order to meet the regulatory requirement and raise primary equity capital. ICRA takes note of the same and will continue to monitor further developments.

The rating is also constrained by Jana SFB's continued stressed asset quality position, with the pandemic-induced challenges impacting its profitability metrics over the last two years. Moreover, the portfolio delinquencies increased in H1 FY2023 as well, primarily on account of the slippages from the restructured loan book (~42.8% of standard restructured book outstanding as of March 2022 has either recovered or slipped into NPA category or was written-off by the bank during H1FY2023). Consequently, Jana SFB reported higher gross non-performing assets (GNPAs) of 6.1% and net non-performing assets (NNPAs) of 4.1% as on September 30, 2022. ICRA expects the bank to absorb a significant portion of the pandemic-related credit costs by the end of FY2023 with a subsequent improvement in its profitability metrics; ICRA will continue to monitor the same.

ICRA has reaffirmed the rating with stable outlook while simultaneously withdrawing the rating outstanding for Rs. 26.00 crore Subordinated debt programme as the instrument has been repaid by the company and there is no amount outstanding against the same. The rating has been withdrawn in accordance with ICRA's policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Improvement in deposit profile – Jana SFB has been successful in building a large deposit base, comprising ~65% of its total borrowings[1] as on September 30, 2022. Consequently, the cost of funds has been declining over the years and was 7.5% in FY2022 against 8.2% in FY2021. Jana SFB has been able to build its deposit franchise and the gradual increase in the share of CASA in the total deposits is visible. As on September 30, 2022, CASA formed 22.9% of the total deposit profile against 16.8% in March 2021. As of September 30, 2022, ~28% of the funding was sourced IBPCs and FIs, including National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank (NHB).

Increase in share of secured advances – ICRA takes note of the healthy increase in the bank's secured loan book. As of September 30, 2022, Jana SFB's secured loan stood at Rs. 8,925 crore, accounting for 54% of the total loan book (50.4%, 39.8% and 25.2% as of March 2022, March 2021 and March 2020, respectively). It aims to expand the share of secured assets further to 60% by the end of FY2023.

With a considerable portion of the bank's portfolio continuing to consist of microfinance loans (46% as of September 2022), the portfolio remains vulnerable to asset shocks as witnessed after demonetisation and during the pandemic. The rating factors in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks. The microfinance industry is prone to socio-political, climatic and operational risks, which could negatively impact the bank's operations, and thus its financial position.

Experienced board and management team; support from key shareholders – Jana SFB has an eight-member board with five independent directors. The board has 11 sub-committees for audit & compliance, risk management, information technology strategy, corporate social responsibility, etc, to manage and guide the bank's strategy and to create value for its stakeholders. The bank's senior management team comprises experienced professional with relevant domain expertise. Jana SFB is a subsidiary of Jana Holdings Limited (JHL), which held a 42.88% stake in the bank as on September 30, 2022. TPG Asia is Jana SFB's largest shareholder followed by HarbourVest Partners.

Credit challenges

Stretched capitalisation profile; timely completion of IPO is crucial – Jana SFB's capital adequacy ratio of 16.36%, as of September 2022, is above the regulatory requirement of 15%. Due to the deterioration in the asset quality in earlier years[2] and with the pace of growth being higher than the internal capital generation, the bank had to continuously raise equity capital to maintain its capitalisation profile. In the previous five fiscals, the bank cumulatively had raised total equity of Rs. 3,127 crore (Rs. 1,636 crore in FY2018, Rs. 1,086 crore in FY2019, Rs. 339 crore in FY2020 and Rs. 66 crore in FY2022) from existing and as well as new investors. In H1 FY2023, the investors have further supported the bank by infusing ~Rs. 340-crore equity capital. Nevertheless, its gearing remained high at 12.65 times as on September 30, 2022 (15.03 times as on March 31, 2022).

The bank could not complete its IPO process in line with the SFB licence requirement (by March 2021) because of the Covid-19 related disruptions. However, it is looking to restart the process of getting its shares listed through an IPO, which would help bolster its capitalisation profile while supporting its growth plans and allowing it to meet the regulatory requirement. ICRA further takes note of the weak capitalisation profile of JHL and that it is still not meeting the consolidated regulatory capital adequacy, standalone leverage and minimum core capital requirements. ICRA notes that JHL is in the process of merging with JCL, subject to various approvals.

[1] Borrowings includes deposits, IBCSs, loans from FIs, Tier-II, call money, tri party repo and long-term repo operation instruments

[2] Jana SFB profitability was impacted in FY2019 due to demonetisation and in FY2021 & FY2022 due to pandemic.

Asset quality under pressure; incremental slippages from restructured book would be monitorable – The bank's GNPAs increased to 6.1% on September 30, 2022 from 5.0% as on March 31, 2022 (6.7% as on March 31, 2021) largely on account of stress from the restructured loan book. The NNPAs stood at 4.1% as on September 30, 2022 (3.4% as on March 31, 2022). Including the restructured loans, the book under stress stood at 8.2% (GNPAs + standard restructured book) as of September 2022. The performance of this book and recovery from the same would remain monitorable. The bank's ability to make meaningful recoveries from it stressed book and arrest further slippages while growing its book would remain critical from a rating perspective, going forward.

Subdued profitability indicators due to elevated credit costs – The bank's profitability indicators remained subdued in H1FY2023, despite witnessing some improvement as compared to FY2022, because of higher credit provisions along with the moderation in its net interest margin (NIM). Credit provisions, with respect to average total assets (ATA), remained elevated at 3.54% in H1 FY2023 (3.13% in FY2022) due to the deterioration in the asset quality. This was on account of higher slippages and the poor performance of the restructured loan book. Further, NIM/ATA declined to 7.02% in H1 FY2023 and 7.08% in FY2022 from 7.60% in FY2021 and 8.57% in FY2020 primarily on account of the lower interest charged on the secured loan book. The bank reported a net profit of Rs. 55.6 crore in H1 FY2023 and Rs. 5.4 crore in FY2022, translating into a return of 0.52% on ATA in H1 FY2023 and 0.03% in FY2022 compared to a net profit of Rs. 84.3 crore in FY2021 and a return of 0.51% on ATA.

Liquidity position: Adequate

The liquidity coverage ratio was healthy at 407% as on September 30, 2022 (487% as on March 31, 2022) on a daily average basis against the regulatory requirement of 100%. The bank's ALM statement as on September 30, 2022 did not have any cumulative mismatches for a period of one year, even under the stressed scenario of 90% collection efficiency on advances. As on September 30, 2022, Jana SFB was carrying on-book liquidity (excluding mandatory investments) of Rs. 3,034.5 crore. The liquidity profile is also supported by the availability of lines from FIs.

Rating sensitivities

Positive factors – ICRA could upgrade Jana SFB'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 the asset quality profile would also positively impact the rating.

Negative factors – Inability to improve the capital profile from the current levels or a sustained weakening in the asset quality, impacting the earnings profile, would affect the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Banks and Financial Institutions Rating Methodology Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of Jana SFB

About the company

Jana Small Finance Bank Limited (erstwhile Janalakshmi Financial Services Limited) commenced operations as a non-banking financial company (NBFC) on March 4, 2008 and was later classified as an NBFC-microfinance institution (NBFC-MFI). It received a licence to set up a small finance bank (SFB) on April 28, 2017 and commenced banking operations on March 28, 2018. Jana Holdings Limited (JHL), an NBFC-non-operative financial holding company (NBFC-NOFHC), had a 42.88% stake in JSFB as on September 30, 2022.

JSFB has a diversified portfolio with a presence in around 24 states/Union Territories (UTs) across India with the top 3 states (Tamil Nadu, Karnataka & Maharashtra) accounting for 42.16% of the AUM as on September 30, 2022.

Key financial indicators (audited)

Jana Small Finance Bank	FY2020	FY2021	FY2022	H1 FY2023*
Net interest income	1,011.4	1,263.1	1,389.8	751.9
Profit after tax	30.1	84.3	5.4	55.6
Net advances	9,956.6	11,611.9	13,006.7	14,642.6
Total assets	14,144.5	19,090.9	20,188.7	22,682.8
Tier I	13.12%	11.75%	11.83%	14.08%
CRAR	19.25%	15.51%	15.26%	16.36%
Net interest margin	8.57%	7.60%	7.08%	7.02%
Credit provisions / ATA	1.95%	1.75%	3.13%	3.54%
PAT / ATA	0.26%	0.51%	0.03%	0.52%
Net worth / Total assets	7.38%	5.90%	5.95%	7.03%
Return on net worth	2.89%	7.48%	0.45%	3.49%
Gross NPAs#	2.80%	6.71%	4.98%	6.1%
Net NPAs#	1.30%	4.84%	3.43%	4.1%

Note: Amount in Rs. crore; All calculations are as per ICRA Research; # On AUM
Source: Bank, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023) Type	Current rating (FY2023) Amount rated (Rs. crore)	Current rating (FY2023) Amount outstanding as of Dec 30, 2022 (Rs. crore)	Chronology of rating history for the past 3 years: Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Dec 30, 2022	Mar 22, 2022	Mar 23, 2021	Jan 29, 2020	Jul 09, 2019
1	Subordinated debt	Long term	430.0	430.0	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)
2	Subordinated debt	Long term	26.0	-	[ICRA]BBB (Stable); reaffirmed & withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)
3	Bank facilities	Long term	-	-	-	-	-	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB- (Negative)
4	Non-convertible debentures	Long term	-	-	-	-	[ICRA]BBB (Stable); reaffirmed & withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB- (Negative)

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE953L08329	**Subordinated debt**	Dec 22, 2015	13.80%	Jul 07, 2027	75.00	[ICRA]BBB (Stable)
INE953L08055	**Subordinated debt**	Mar 21, 2016	14.20%	May 19, 2023	80.00	[ICRA]BBB (Stable)
INE953L08063	**Subordinated debt**	Mar 28, 2016	13.35%	May 27, 2022	26.00	[ICRA]BBB (Stable); withdrawn
INE953L08295	**Subordinated debt**	Jun 19, 2019	14.50%	Jun 29, 2025	175.00	[ICRA]BBB (Stable)
INE953L08303	**Subordinated debt**	Jul 10, 2019	13.15%	Jul 10, 2025	50.00	[ICRA]BBB (Stable)
INE953L08311	**Subordinated debt**	Aug 31, 2021	13.50%	Nov 30, 2026	50.00	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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