September 07, 2023

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

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt	600.0	600.0	[ICRA]BBB+(Positive); upgraded from [ICRA]BBB(Stable) and outlook revised to Positive from Stable
Subordinated debt	80.0	0.0	[ICRA]BBB+(Positive); upgraded from [ICRA]BBB(Stable), outlook revised to Positive from Stable and withdrawn
Total	**680.0**	**600.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade factors in the improvement in Jana Small Finance Bank's (Jana SFB) capitalisation profile, asset quality and earnings profile. Jana SFB's capital adequacy ratio increased to 18.7% as of June 2023 from 15.6% as of March 2023 (15.3% as of March 2022). The improvement was supported by the capital infusion of Rs. 562.0 crore in Q1 FY2024, of which Rs. 450.0 crore was infused through a rights issue and Rs. 112.0 crore was infused through the issuance of compulsorily convertible preference shares (CCPS) to new investors. ICRA notes that the bank filed its draft red herring prospectus (DRHP) with the Securities and Exchange Board of India (SEBI) on July 31, 2023, to reinitiate the initial public offering (IPO) process, which includes a fresh capital raise of Rs. 575 crore. The positive outlook reflects ICRA's view that a successful conclusion of the IPO process in the near term would strengthen the bank's capitalisation profile further and, in turn, support its medium-term growth plans.

The rating also considers the improvement in Jana SFB's asset quality in FY2023 and Q1 FY2024, which is expected to sustain going forward as well. The gross non-performing assets (GNPA; %) improved to 2.9% as of June 2023 and 3.9% as of March 2023 (5.7% as of March 2022). Further, with the bank increasing its NPA provision coverage to 60.1% as of June 2023, its net non-performing assets (NNPA; %) improved to 1.2% as of June 2023 from 2.6% as of March 2023 (3.9% as of March 2022). The improvement in the asset quality was supported by the strong growth in the assets under management (AUM) in FY2023 with the incremental loans demonstrating a better collection and delinquency profile.

Over the last two years, Jana SFB has significantly cleaned up its portfolio through loan write-offs (Rs. 639.0 crore in FY2023) and loan sale to an asset reconstruction company (ARC; Rs. 595.5 crore[1] in FY2022, FY2023 and Q1 FY2024), which has helped reduce its stressed exposures. ICRA notes the steady increase in the bank's secured loan book, which stood at 55.0% of its on-book AUM as of March 2023 (53.0% as of March 2022 and 42.9% as of March 2021). The share of the secured portfolio is expected to increase steadily over the medium term as the bank continues to focus on these products, going forward. As of March 2023, the secured loan book had a lower GNPA (%) of 0.9% compared to 7.7% in the unsecured loan book.

Jana SFB's net profitability (return on average assets; RoA) improved to 1.4% in Q1 FY2024 and 1.1% in FY2023 from 0.03% in FY2022, supported by recoveries from written-off accounts (Rs. 70.7 crore in FY2023 and Rs. 14.1 crore in Q1 FY2024) and gains from the sale of assets to the ARC (Rs. 186.6 crore in FY2023 and Rs. 25.7 crore in Q1 FY2024). ICRA expects Jana SFB's

[1] *Amount is net of provisions*

net profitability to improve steadily over the medium term, supported by the enhanced operating efficiency. However, it would be critical to keep the loan losses under control.

The rating remains constrained by the bank's moderate liability profile, with the share of current account savings account (CASA) in total deposits declining to 20.2% as of March 2023 from 22.5% as of March 2022. Further, the share of retail deposits declined to 50% as of March 2023 from the peak of 57% as of March 2021. Going forward, Jana SFB's ability to improve the granularity of its deposits further while sustainably increasing the share of CASA will be important from a credit perspective. The rating continues to factor in the risks associated with the relatively low seasoning of the secured assets segment, the unsecured nature of microfinance loans, the credit risk emerging from the marginal borrower profile, and other socio-political and operational risks inherent in the microfinance business.

ICRA has upgraded the long-term rating on the Rs. 80.0-crore subordinated debt programme to [ICRA]BBB+ from [ICRA]BBB, revised the outlook to Positive from Stable, and has subsequently withdrawn the rating as the instrument has been fully redeemed with no amount outstanding against the same. The rating was withdrawn as per ICRA's policy on the withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Strengthened capital profile; further capital augmentation expected via IPO – Jana SFB's capital adequacy ratio improved to 18.7% as on June 30, 2023, from 15.6% as on March 31, 2023, and 15.3% as on March 31, 2022. The improvement was supported by the recent capital infusion of Rs. 562.0 crore (Rs. 450.0 crore through a rights issue and Rs. 112.0 crore through the issuance of CCPS). The bank has been continuously raising equity capital over the last few years to maintain its capitalisation profile, given the higher pace of growth vis-à-vis the internal capital generation. In the previous six fiscals, it had raised total equity of Rs. 3,464.0 crore from a mix of existing and new investors. The gearing stood at 9.3 times as of June 2023 (12.6 times as of March 2023 and 15.0 times as of March 2022). Jana SFB filed its DRHP with SEBI on July 31, 2023, to reinitiate the IPO process and expects to raise Rs. 575.0 crore through a mix of pre-IPO and IPO issuance.

ICRA notes the weak financial profile of Jana Holdings Limited (JHL) and Jana Capital Limited (JCL), the promoter entities of the bank. These entities remain in breach of the regulatory capital and leverage requirements and their performance will remain monitorable from a rating perspective.

Improving asset quality and earnings profile – Jana SFB's GNPA (%) improved to 2.9% as of June 2023 from 3.9% as of March 2023 and 5.7% as of March 2022. Further, with the bank increasing its NPA provision coverage to 60.1% as of June 2023, its NNPA (%) improved to 1.2% as of June 2023 from 2.6% as of March 2023. The improvement in the asset quality was supported by the strong AUM growth in FY2023 with the incremental loans demonstrating a better collection and delinquency profile. Also, the bank has been steadily undertaking significant technical write-offs and sale of its stressed portfolio to an ARC. Jana SFB has done technical write-offs of Rs. 639.0 crore in FY2023. Its ARC sales (net of provisions) from the stressed on-book portfolio were Rs. 255.5 crore and Rs. 241.4 crore in Q1 FY2024 and FY2023, respectively. Additionally, the bank had sold Rs. 3,375.8 crore of written-off loans to an ARC in FY2023 and Q1FY2024. The outstanding security receipts stood at Rs. 467.5 crore as of June 2023. Jana SFB's standard restructured portfolio (net of provisions) stood at Rs. 177.9 crore (1.0% of the gross on-book portfolio as of March 2023). Its asset quality profile is expected to further improve with the stressed portfolio likely to be resolved over the next few quarters and new disbursements maintaining healthy collections.

Jana SFB reported a consolidated profit after tax (PAT) of Rs. 90.4 crore, translating into an RoA of 1.4% as of June 2023 (Rs. 256.0 crore and 1.1%, respectively, as of March 2023). The net interest margin (NIM) remained stable at 7.1% in Q1 FY2024 (7.2% in FY2023 and 7.1% in FY2022). The operating expenses stood at 5.8% in Q1 FY2024 and 5.6% in FY2023 compared to 6.3% in FY2021. The improvement in Jana SFB's net profitability in FY2023 and Q1 FY2024 was largely supported by recoveries from the written-off accounts and income received from the sale of loans to the ARC. ICRA expects Jana SFB's net profitability to improve steadily over the medium term, supported by the enhanced operating efficiency. However, it would be critical to keep the loan losses under control.

Steady increase in share of secured loans – ICRA notes the healthy increase in the bank's secured loan book. As of March 2023, Jana SFB's secured loan book stood at Rs. 9,904.7 crore, accounting for 55.0% of the on-book AUM (53.0% as of March 2022 and 42.9% as of March 2021). Loan against property comprised 15.6% of the on-book AUM as of March 2023, followed by loans to micro and small enterprises at 14.5%, affordable housing loans at 13.2% and loans disbursed to non-banking financial companies (NBFCs) at 7.8%. ICRA notes that the secured loan book has been performing better than the unsecured microfinance book. The GNPA (%) stood at 0.9% for the secured loan book as of March 2023 compared to 7.7% for the unsecured loan book. The share of the secured portfolio is expected to increase steadily over the medium term as the bank continues to focus on these products, going forward.

Credit challenges

Scope to improve liability profile – Jana SFB's total deposits increased by 20.7% year-on-year (YoY) in FY2023 and 2.9% quarter-on-quarter (QoQ) in Q1 FY2024. The total deposits stood at Rs. 16,809.0 crore as on June 30, 2023 and Rs. 16,334.0 crore as of March 31, 2023. The top 20 deposits comprised 14.4% of the total deposits held by the bank as on March 31, 2023 (13.2% as on March 31, 2022; 12.6% as on March 31, 2021). The share of CASA in total deposits declined to 20.2% as on March 31, 2023 from 22.5% as on March 31, 2022 (16.3% as on March 31, 2021), with Jana SFB being unable to increase its CASA in line with the strong growth in its advances. Further, the share of retail deposits declined to 50.0% as of March 2023 from the peak of 57.2% as of March 2021 as the proportion of bulk deposits increased for meeting its incremental funding requirements.

Going forward, Jana SFB's ability to improve the granularity of its deposits while sustainably increasing the share of CASA will be important from a credit perspective. As of March 31, 2023, 26.0% of the bank's funding was sourced through inter-bank participation certificates (IBPCs) and from financial institutions (FIs), including National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank (NHB).

Ability to maintain performance in new asset segments and manage risks associated with microfinance sector – The microfinance segment continued to account for a sizeable 45.0% of the bank's portfolio as of March 2023, while the secured asset segment accounted for 55.0%. As Jana SFB continues to expand its longer-tenor secured loan book with steep growth plans for the near term, portfolio seasoning is expected to be restricted. Accordingly, it would be critical for the bank to maintain tight underwriting standards, given its limited vintage in this segment.

The rating also factors in the risks associated with unsecured lending to marginal borrowers with limited ability to absorb income shocks and the rising borrower leverage levels owing to an increase in multiple lending in the areas of operations. Lending in the microfinance segment is prone to socio-political, climatic, and operational risks, which could negatively impact the bank's operations, and thus its financial position. Going forward, Jana SFB's ability to onboard borrowers with a good credit history, which would support better asset quality performance in the secured as well as unsecured asset segment, and recruit and retain employees for scaling up its operations would be key for managing its envisioned growth rates.

Liquidity position: Adequate

Jana SFB's liquidity coverage ratio was healthy at 700.0% as on June 30, 2023 (510.0% as on March 31, 2023) against the regulatory requirement of 100.0%. Its surplus liquidity stood at Rs. 2,015.0 crore as on June 30, 2023, which was sufficient to cover approximately one month of debt repayment obligations. Further, the bank's Asset Liability Management profile, as of June 2023, did not have any cumulative mismatches over the next six months. The liquidity profile is also supported by the availability of lines from banks and FIs.

Rating sensitivities

Positive factors – ICRA could upgrade Jana SFB's rating if it continues to maintain adequate capital buffers over the regulatory requirement and improves its liability profile on a sustained basis while meeting its growth plans. A consistent improvement in its earnings and asset quality profile could also positively impact the rating.

Negative factors – ICRA could revise the outlook to Stable or downgrade the rating in case of a sustained weakening in the asset quality, impacting the earnings profile. A sustained deterioration in the capital buffers could also adversely impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Banks & Financial Institutions 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 on April 28, 2017 and commenced banking operations on March 28, 2018. Jana Holdings Limited, an NBFC-non-operative financial holding company (NBFC-NOFHC), held a 33.8% stake in Jana SFB as on June 30, 2023. Jana SFB has a diversified portfolio with a presence in 24 states/Union Territories across India with the top 3 states (Tamil Nadu, Karnataka, and Maharashtra) accounting for 38.0% of the AUM as on June 30, 2023.

Key financial indicators (audited)

	FY2021	FY2022	FY2023	Q1 FY2024
Net interest income	1,263.1	1,389.8	1,660.0	461.9
Profit before tax	84.3	5.4	256.0	90.4
Profit after tax	84.3	5.4	256.0	90.4
Net advances	11,611.9	13,006.7	17,759.6	18,476.0
Total assets	19,090.9	20,188.7	25,643.7	26,428.5
CET I	10.11%	10.3%	11.0%	14.0%
Tier I	11.8%	11.8%	13.0%	16.7%
CRAR	15.5%	15.3%	15.6%	18.7%
Net interest margin/ATA	7.6%	7.1%	7.2%	7.1%
PAT / ATA	0.5%	0.0%	1.1%	1.4%
Return on net worth	7.5%	0.5%	14.2%	3.7%
Gross NPAs	7.2%	5.7%	3.9%	2.9%
Net NPAs	5.3%	3.9%	2.6%	1.2%
Provision coverage excl. technical write-offs	27.9%	32.2%	34.0%	60.1%
Net NPA / Core equity capital	57.6%	45.1%	27.4%	9.5%

Amount in Rs. crore: All calculations are as per ICRA Research
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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Sep 07, 2023	Mar 01, 2023	Dec 30, 2022	Mar 22, 2022	Mar 23, 2021
1	**Subordinated debt**	Long term	600.0	600.0	**[ICRA]BBB+ (Positive)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	**Subordinated debt**	Long term	80.0	0.0	**[ICRA]BBB+ (Positive); withdrawn**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
3	**Non-convertible debentures**	Long term	-	-	-	-	-	-	**[ICRA]BBB (Stable); reaffirmed & withdrawn**

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	75.0	[ICRA]BBB+ (Positive)
INE953L08055	**Subordinated debt**	Mar 21, 2016	14.20%	May 19, 2023	80.0	[ICRA]BBB+ (Positive); withdrawn
INE953L08295	**Subordinated debt**	Jun 19, 2019	14.50%	Jun 29, 2025	175.0	[ICRA]BBB+ (Positive)
INE953L08303	**Subordinated debt**	Jul 10, 2019	13.15%	Jul 10, 2025	50.0	[ICRA]BBB+ (Positive)
INE953L08311	**Subordinated debt**	Aug 31, 2021	13.50%	Nov 30, 2026	50.0	[ICRA]BBB+ (Positive)
NA	**Subordinated debt***	NA	NA	NA	250.0	[ICRA]BBB+ (Positive)

*Source: Jana SFB; *Proposed*

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

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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