

March 15, 2024

## Jana Small Finance Bank Limited: Rating upgraded; Outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt	600.0	600.0	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ and outlook revised to Stable from Positive
<b>Total</b>	<b>600.0</b>	<b>600.0</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating upgrade factors in the improvement in Jana Small Finance Bank's (Jana SFB) capital profile, asset quality and earnings performance, which has positively impacted its risk profile. Jana SFB received a total capital infusion of Rs. 1,137.2 crore in FY2024 (Rs. 562.0 crore in Q1 FY2024, Rs. 575.2 crore in Q4 FY2024, including the equity raise of Rs. 462.0 crore through the initial public offering (IPO) and Rs. 113.2 crore as pre-IPO). ICRA expects Jana SFB to maintain adequate capital buffers while meeting its near-to-medium-term growth plans. The bank's asset quality has been on a steadily improving trend; the gross non-performing assets (GNPA; %) improved to 2.2% as of December 2023 from 3.9% as of March 2023 (5.7% as of March 2022). ICRA notes a steady increase in the bank's secured loan book, which stood at 58.4% of its on-book assets under management (AUM) as of December 2023 compared to 55.0% as of March 2023 (53.0% as of March 2022 and 42.9% as of March 2021). The share of secured assets is expected to increase further to about 60% by FY2024 and about 80% by FY2026, which would bolster the bank's risk profile further.

Jana SFB's net profitability (return on average assets; RoA) improved to 1.7% in 9M FY2024 and 1.1% in FY2023 from 0.03% in FY2022. Going forward, Jana SFB's ability to improve its deposit profile and granularity, while increasing the share of current account savings account (CASA) on a sustainable basis, will be important from a credit perspective.

### Key rating drivers and their description

#### Credit strengths

**Strengthened capital profile to meet medium-term growth plans while maintaining adequate buffer** – Jana SFB's capital adequacy ratio stood at 16.3% as on December 31, 2023 (20.5% considering the inflows from IPO; proforma) compared to 15.6% as on March 31, 2023 and 15.3% as on March 31, 2022. The improvement was supported by the total capital infusion of Rs. 1,137.2 crore in FY2024 (Rs. 562.0 crore in Q1 FY2024, pre-IPO placement of Rs. 113.2 crore and IPO of Rs. 462.0 crore in Q4 FY2024). The bank has been raising equity capital continuously over the last few years to maintain its capitalisation profile, given the higher pace of growth vis-à-vis the internal capital generation. The gearing (considering deposits as borrowings) stood at 9.6 times as of December 2023 (12.6 times as of March 2023 and 15.0 times as of March 2022).

ICRA notes the weak financial profile of Jana Holdings Limited (JHL) and Jana Capital Limited (JCL), the promoter entities of the bank (post-IPO stake of 22.54%) which are non-operating financial holding companies.

**Improving asset quality and earnings profile** – Jana SFB's GNPA (%) improved to 2.2% as of December 2023 from 3.9% as of March 2023 and 5.7% as of March 2022. This was on the back of the strong AUM growth in FY2023 and 9M FY2024, with the incremental portfolio demonstrating a better collection and delinquency profile. Also, the bank has been undertaking technical

write-offs<sup>1</sup> (Rs. 244.9 crore in 9M FY2024 and Rs. 639.0 crore in FY2023) along with the sale of its stressed portfolio to asset reconstruction companies (ARCs; Rs. 481.3 crore in 9M FY2024 and Rs. 241.4 crore FY2023). Additionally, it sold Rs. 3,489.4 crore of written-off loans to an ARC in FY2023 and H1 FY2024. The outstanding net security receipts stood at ~Rs. 473 crore as of December 2023. Jana SFB's standard restructured portfolio (net of provisions) stood at ~Rs. 100 crore (0.4% of the gross on-book portfolio as of December 2023). Going forward, with the steady resolution of the stressed portfolio and the increasing share of the better-performing secured loan book, Jana SFB's asset quality profile is expected to witness further improvement.

Jana SFB reported a profit after tax (PAT) of Rs. 347.9 crore, translating into an RoA of 1.7% in 9M FY2024 (Rs. 256.0 crore and 1.1%, respectively, in FY2023). The net interest margin (NIM) stood at 7.3% in 9M FY2024 (7.2% in FY2023 and 7.1% in FY2022). The operating expenses improved to 5.6% in 9M FY2024 as well as FY2023 from 5.8% in FY2022. ICRA expects Jana SFB's net profitability to be in the range of 1.8-2.0%, supported by improving credit costs, as it increases the share of secured loans. However, it would be critical to keep the operating efficiency under control as the bank undertakes branch upgradation/expansion, going forward.

**Steady increase in share of secured loans** – ICRA notes the steady increase in the bank's secured loan book. As of December 2023, Jana SFB's secured loan book stood at Rs. 13,023 crore, accounting for 58.4% of the on-book AUM (53.0% as of March 2022 and 42.9% as of March 2021) while the microfinance segment accounted for 41.6%. Loan against property comprised 18.8% of the on-book AUM as of December 2023, followed by loans to micro and small enterprises (12.6%), affordable housing loans (15.1%) and loans disbursed to non-banking financial companies (NBFCs; 5.5%). The share of the secured portfolio is expected to increase steadily over the medium term as the bank continues to focus on these products, which would further support the risk profile of its portfolio. However, these are relatively longer tenor loans and thus performance would be monitorable.

## Credit challenges

**Scope to improve deposit profile** – Jana SFB's total deposits stood at Rs. 20,784.6 crore as of December 2023, increasing 36.5% year-on-year (YoY) from Rs. 15,227.0 crore as of December 2022. The share of CASA in the total deposits declined to 20.2% as of March 2023 from 22.5% as of March 2022 (16.3% as of March 2021) and stood at 18.8% as of December 2023. ICRA notes that the CASA share of peers in the industry has also witnessed a decline in the recent past. The share of retail term deposits and CASA declined to 62% as of December 2023 and 70% as of March 2023 from 74% as of March 2021 as the proportion of bulk deposits was increased for meeting the incremental funding requirements. Therefore, there is scope for improvement in JSFB' deposit profile from current levels by increasing the share of granular and retail deposits on a sustained basis.

As of December 31, 2023, the bank has a fairly diversified funding profile with 79% sourced through deposits, 16% through financial institutions (FIs), including National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), and National Housing Bank (NHB), with the remaining through Reserve Bank of India (RBI) borrowings, subordinated debt, etc.

## Environmental and social risks

**Environmental considerations** – Given the service-oriented business of Jana SFB, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While the bank does not face material physical climate risks, it is exposed to environmental risks indirectly through its portfolio of assets, though it is minimised to certain extent given the large customer base to which it caters.

**Social considerations** – Jana SFB contributes towards enhancing financial inclusion by providing several products and services that are specifically targeted towards the marginalised sections of society and attempts to address and cater to social concerns. Prudent lending to such under-served segments could create growth opportunities. However, such growth opportunities must be seen in conjuncture with asset quality risks that could impact the bank's credit quality. Data security and customer privacy

<sup>1</sup> fully provided for

are among the key factors under social considerations. Customer preference is increasingly shifting towards digital banking. While this provides an opportunity to reduce operating costs, it requires regular investment and augmentation.

## Liquidity position: Adequate

Jana SFB's liquidity coverage ratio was healthy at 506.0% as on December 31, 2023 (510.0% as on March 31, 2023) against the regulatory requirement of 100.0%. The surplus liquidity stood at Rs. 1,654.0 crore as on December 31, 2023. Further, its asset-liability management profile, as of December 2023, did not have any cumulative mismatches over the next six months.

## Rating sensitivities

**Positive factors** – A sustained improvement in the liability profile, the ability to maintain adequate capital buffers and healthy asset quality as the business scales up shall positively impact the rating.

**Negative factors** – A sustained deterioration in the asset quality, weakening earnings profile (PAT/average total assets of less than 1%) or low capital buffers shall adversely impact the rating.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology – Banks &amp; Financial Institutions</a>
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), with a 25.23% stake as on January 31, 2024 (post-IPO stake of 22.54% in February 2024), is the promoter of Jana SFB. The bank has diversified its portfolio with a presence in 24 states/Union Territories across India with the top 3 states (Tamil Nadu, Karnataka, and Maharashtra) accounting for 37.5% of the AUM as on December 31, 2023.

## Key financial indicators

	FY2022 <sup>#</sup>	FY2023	9M FY2024 <sup>*</sup>
Total income	1,389.8	1,660.0	1,536.1
Profit after tax	5.4	256.0	347.9
Total assets	20,188.7	25,643.7	30,154.2
CET I	10.3%	11.0%	13.2%
CRAR	15.3%	15.6%	16.3%
PAT/ATA	0.0%	1.1%	1.7%
Gross NPAs	5.7%	3.9%	2.2%
Net NPAs	3.9%	2.6%	0.7%

Note: Amount in Rs. crore: All calculations are as per ICRA Research; <sup>\*</sup>Provisional; <sup>#</sup>Not based on restated financials.

Source: Bank, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Current rating (FY2024)				Chronology of rating history for the past 3 years	
				Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Mar 15, 2024	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]A-(Stable)	[ICRA]BBB+(Positive)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
2 Non-convertible debentures	Long term	-	-	-	-	-	-	-	[ICRA]BBB(Stable); 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]A- (Stable)
INE953L08295	Subordinated debt	Jun 19, 2019	14.50%	Jun 29, 2025	175.0	[ICRA]A- (Stable)
INE953L08303	Subordinated debt	Jul 10, 2019	13.15%	Jul 10, 2025	50.0	[ICRA]A- (Stable)
INE953L08311	Subordinated debt	Aug 31, 2021	13.50%	Nov 30, 2026	50.0	[ICRA]A- (Stable)
NA	Subordinated debt*	NA	NA	NA	250.0	[ICRA]A- (Stable)

Source: Jana SFB; \*Proposed

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

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