

March 01, 2023

Jana Small Finance Bank Limited: Rating reaffirmed and assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Subordinated debt	430.0	430.0	[ICRA]BBB (Stable); reaffirmed
Subordinated debt	00.0	250.0	[ICRA]BBB (Stable); assigned
Total	430.00	680.0	

*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 an 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 54.7% as on December 31, 2022 (the same stood at 50.4%, 39.8% and 25.2% as of March 2022, March 2021 and March 2020, respectively). The unsecured portion of its portfolio remains sizeable, and the rating continues to consider 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 FY2022 and 9M FY2023. Jana SFB's deposit base has increased to Rs. 15,227 crore as of December 2022 from Rs. 13,540 crore as of March 2022. Jana SFB's liquidity profile remains adequate, reflected by positive cumulative mismatches in the bank's asset liability management (ALM) statement up to 6 months bucket.

The rating factors in Jana SFB's capitalisation profile with a total capital-to-risk weighted assets ratio (CRAR) of 15.8% in 9M FY2023 (15.3% as of March 2022 and 15.5% as of March 2021) against the regulatory requirement of 15.0%. The bank is expected to raise Tier-2 capital (through subordinated debt) which would improve its CRAR to an extent. 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 by H1 FY2024 to meet the regulatory requirement and raise primary equity capital. ICRA notes 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 9M FY2023 as well, primarily on account of the slippages from the restructured loan book. Consequently, Jana SFB reported higher gross non-performing assets (GNPAs) of 6.4% and net non-performing assets (NNPAs) of 3.6% as on December 31, 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, and will continue to monitor the same.

Key rating drivers and their description

Credit strengths

Steady traction in deposit base – Jana SFB has been successful in building a large deposit base, comprising ~68% of its total borrowings¹ as on December 31, 2022. Consequently, the cost of funds has been declining over the years and stood at 7.0% in 9M FY2023 and 7.5% in FY2022 against 8.2% in FY2021. Jana SFB has been able to build its deposit franchise and the gradual increase of CASA in the total deposits is visible. As on December 31, 2022, CASA accounted for 20.9% of the total deposit profile against 16.8% in March 2021. As of December 31, 2022, ~26% of the funding was sourced Inter Bank Participation Certificates (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 notes the healthy increase in the bank's secured loan book. As of December 31, 2022, Jana SFB's secured loan stood at Rs. 9,876 crore, accounting for 54.7% of the total loan book (the same stood at 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.

As a considerable portion of the bank's portfolio continues to consist of microfinance loans (45.3% as of December 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 a seven-member board with five independent directors. The board has 11 sub-committees for audit and 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 42.9% stake in the bank as on December 31, 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 15.8%, as of December 2022, is above the regulatory requirement of 15%. The bank had to continuously raise equity capital to maintain its capitalisation profile due to the deterioration in the asset quality in the earlier years² and also because the pace of growth was higher than the internal capital generation. 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 the existing and as well as new investors. In 9M FY2023, investors further supported the bank by infusing ~Rs. 340-crore equity capital. Nevertheless, its gearing remained high at 12.2 times as on December 31, 2022 (against 15.0 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 pandemic related disruptions. However, it is looking to restart the process, which would help boost its capitalisation profile while supporting its growth plans and allowing it to meet the regulatory requirement. ICRA further notes the weak capitalisation profile of JHL and the fact that it is still not meeting the consolidated regulatory capital adequacy, standalone leverage and

¹ Borrowings include deposits, IBPCs, loans from FIs, Tier-II, call money, tri-party repo and long-term repo operation instruments

² Jana SFB's profitability was impacted in FY2019 due to demonetisation and in FY2021 and FY2022 due to the pandemic

minimum core capital requirements. ICRA notes that JHL is in the process of merging with Jana Capital limited, subject to various approvals.

Asset quality under pressure; incremental slippages from restructured book would be monitorable – The bank's GNPA's increased to 6.4% as on December 31, 2022 from 5.0% as on March 31, 2022 (6.7% as on March 31, 2021) mainly on account of stress from the restructured loan book. The NNPA's stood at 3.6% as on December 31, 2022 (3.4% as on March 31, 2022). The book under stress stood at ~7.9% (GNPA's + standard restructured book), including the restructured loans, as of December 31, 2022. The performance of this book and recovery from the same would remain under focus. The bank's ability to make meaningful recoveries from its stressed book and arrest further slippages while growing its book would remain critical from the rating perspective, going forward.

Subdued profitability indicators due to elevated credit costs – The bank reported a net profit of Rs. 175 crore in 9M FY2023 against Rs. 5 crore in FY2022. More-than-commensurate decline in the average cost of funds compared to the decline in yields has resulted in an improvement in NIM/ATA at 7.3% in 9M FY2023 against 7.1% in FY2022. Further, the bank's opex/ATA declined to 5.7% in 9M FY2023 from 5.8% in FY2022. Its non-interest income/ATA increased to 2.8% in 9M FY2023 from 1.6% in FY2022 mainly on account of recoveries from write-offs (~Rs. 115 crore) and net gain from sale of assets to ARC (Rs. 75 crore). Consequently, RoA and RoE improved to 1.07% and 10.21%, respectively in 9M FY2023 from 0.03% and 0.45%, respectively in FY2022.

Liquidity position: Adequate

The liquidity coverage ratio was healthy at 643% as on December 31, 2022 (487% as on March 31, 2022) against the regulatory requirement of 100%. The bank's ALM statement as on December 31, 2022 did not have any cumulative mismatch for six months, even under the stressed scenario of ~90% collection efficiency on advances. As on December 31, 2022, Jana SFB was carrying on-book liquidity (excluding mandatory investments) of Rs. 2,436.4 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. A consistent improvement in earnings and asset quality profile would also positively impact the rating.

Negative factors – Jana SFB's inability to improve the capital profile from the current level 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
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 the 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), had a 42.9% stake in JSFB as on December 31, 2022.

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

Key financial indicators (audited)

Jana Small Finance Bank	FY2020	FY2021	FY2022	9MFY2023*
Net interest income	1,011.4	1,263.1	1,389.8	1,192.7
Profit after tax	30.1	84.3	5.4	175.0
Net advances	9,956.6	11,611.9	13,006.7	16,145.3
Total assets	14,144.5	19,090.9	20,188.7	23,602.0
Tier I	13.12%	11.75%	11.83%	13.82%
CRAR	19.25%	15.51%	15.26%	15.84%
Net interest margin	8.57%	7.60%	7.08%	7.26%
Credit provisions / ATA	1.95%	1.75%	3.13%	3.31%
PAT / ATA	0.26%	0.51%	0.03%	1.07%
Net worth / Total assets	7.38%	5.90%	5.95%	7.26%
Return on net worth	2.89%	7.48%	0.45%	10.21%
Gross NPAs [#]	2.80%	6.71%	4.98%	5.72%
Net NPAs [#]	1.30%	4.84%	3.43%	3.22%

Note: Amount in Rs. crore; All calculations are as per ICRA Research; [#] On AUM basis; ^{*}Provisional
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 as of Dec 30, 2022 (Rs. crore)	Current rating (FY2023)		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	
				Mar 01, 2023	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 (Stable)	[ICRA]BBB- (Negative)
2 Subordinated debt*	Long term	250.0	0.0	[ICRA]BBB (Stable)					
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)

*Yet to be placed

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](https://www.icra.in)

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)
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)
NA	Subordinated debt*	NA	NA	NA	250.00	[ICRA]BBB (Stable)

Source: Company; *Proposed

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

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