Janalakshmi Financial Services Limited

Instrument	Amount In Rs. Crore	Rating Action
Commercial Paper	425.00 (enhanced from 250.00)	[ICRA]A1+; assigned/outstanding

ICRA has assigned the [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 425.00 crore (enhanced from Rs. 250.00 crore) Commercial Paper programme of Janalakshmi Financial Services Limited (JFSL/ the company).ICRA also has the ratings on the Rs. 1300.00 crore long term bank facilities, Rs. 2,866.00 crore Non Convertible Debenture Programme (NCD) and Rs. 751.00 crore Subordinated debt programme at [ICRA]A+ (pronounced ICRA A plus) of the company. The outlook on the long term rating is stable.

The ratings factors in JFSL's strong capitalisation profile (Regulatory Capital Adequacy ratio at 29.0% as on Jun-16) pursuant to latest equity infusion of Rs. 1000 crore in April 2016 and the expected improvement in JFSL's business risk profile post conversion into a small finance bank (SFB). JFSL has made significant progress towards the transition into a SFB, including broad basing the management team, hiring and training of a large number of employees, setting up of new bank branches as well as upgrading existing branch infrastructure, and upgradation of company's IT systems and processes. In ICRA's opinion, JFSL would be able to offer additional loan products, increase fee-based income as well as develop a retail deposit franchise over the medium term given its large active customer base which would support its liability profile and funding costs going forward. However, in the short term, JFSL's funding requirements would increase by around 20-25% owing to CRR and SLR requirements and the company would have to rely on wholesale funding sources such as interbank lending/certificates of deposits, securitization, and capital market instruments for meeting its funding requirements. Overall, the ability of the company to diversify its product mix, develop a good retail deposit franchise and maintain asset quality indicators while managing the high pace of projected growth would have a bearing on the credit profile of the company. Additionally, the company's ability to fully meet the transition-related challenges to a SFB is a monitorable factor.

ICRA takes note of JFSL's ability to grow its portfolio (Portfolio of Rs 11,986 crore as on June 30, 2016, a 218% growth from Rs.3,774 crore as on March 31, 2015) while keeping asset quality indicators under control (30+ delinquencies of 0.65% on overall portfolio and 0.35% on JLG book as on June 30, 2016), and maintaining modest profitability indicators (RoA[1] of 2% in FY2016. The company's ability to manage asset quality in its individual loan book that currently forms about 3% of the portfolio and has 90+ dpd of around 5.9% as on June 30, 2016 (increased from 2.3% in March 2014) is also a key monitorable. While increase in ticket sizes may lead to overleveraging of the end borrowers of MFIs, including those of JFSL, mandatory use of credit bureaus and adopting lower ticket sizes (than Rs one lakh) should contain the overleveraging concerns; nevertheless, given the high growth target of the company, it will be important to ensure overleveraging is kept under check going ahead, as the penetration levels increase in the urban areas (where JFSL will continue to remain more focused). The rating also factors in JFSL's sound management and strong board composition, robust systems and processes, which have enabled it to maintain a low credit risk profile despite lending to marginal borrower profile customers and relatively high pace of expansion. Overall, the rating remains constrained on account of monoline nature of its business, marginal borrower profile, high operational risk inherent in the business, moderate level of earnings, lack of diversification in earnings and challenges associated with aggressive pace of growth. However, the conversion to SFB should address some of these issues including more diversified sources of earning and reduced political risk with better regulatory supervision and liquidity support from RBI.

The company has a diverse lender base (lines from about 50 lenders); additionally the company has also been able to raise funds through various other sources like NCD, securitisation and external commercial borrowing (ECB)- the company has also been able to bring down its cost of funds in FY2016, nevertheless, it continues to be relatively higher compared to peers. Going forward, the ability of the company to replace the bank borrowings (59% of the total borrowings as of June 2016) in their liability mix through mobilisation of deposits and other borrowing source remains to be seen. However, as a result of change in asset and liability mix, Net Interest Margin (NIM) of the company could decline, at the same time leveraging levels are likely to increase. The Managed gearing of the company was at about 5.3 times in June 2016. Moreover to meet the rapid

[1] Return on Assets – Profit After Tax/ Average Total Assets

expansion plans of the company (a compounded annual growth rate of 42-45% over the next five years), it would need consistent external equity infusion (Rs. 4400-5300 crore over five years, if it maintains leveraging of 7 times) sizeable increase in funding lines as well as large scale recruitment and training of employees. The liquidity position remains comfortable given that the residual tenure of liabilities is around 2-3 years, while that of the assets is around 1-2 year, resulting in a favourable ALM position. The company's ability to manage good liquidity while being able to tap funds from alternate sources (since term loans from banks and NBFCs would no longer be available) in view of the transition to an SFB, while registering optimal growth would remain a key rating sensitivity.

Going ahead, while JFSL would benefit from growing its portfolio by leveraging on branch network, it will need to further strengthen its management bandwidth, upgrade its existing branch infrastructure and MIS systems as well as recruit and train personnel to deal with multiple products, in line with the Small Finance Bank requirements, which is likely to push the overall cost of operations and have a bearing on the near term profitability indicators of the company. The company, given the good growth prospects and established relationships with investors and lenders, should be able to continue mobilizing funding and capital commensurate in relation to the envisaged growth. In ICRA's opinion, ability of the company to raise retail deposits at competitive rates would have an important bearing on its liquidity profile, even as stronger liquidity support (post conversion to a bank) from the central bank would be a positive.

Company Profile:
Janalakshmi Financial Services Ltd (JFSL) is a Bangalore-based NBFC catering to the financial needs of urban poor women through the Joint Liability Mechanism. The company was founded in 2006 by Mr. Ramesh Ramanathan as Janalakshmi Social Services (JSS), the portfolio of which was taken over by JFSL in 2008. The promoter shareholding continues to be in JSS (now called Jana Urban Foundation or JUF), and funds in JUF is used to address social issues.

As on June 2016, JFSL had a portfolio of about Rs. 11,986 crore. JFSL is diversified across 193 cities in 18 states in India with the share of top 3 states viz. Karnataka, Tamil Nadu and Maharashtra being about 46.8%. JFSL has registered a high compounded growth of 130% in the last four years. The company has been able to receive equity every year for the last four years and has raised Rs. 1000 crore equity in the latest round in April 2016 from existing as well as new investors. During Q1FY2016, the company reported net profits of Rs. 105 crore (provisional) on a total managed asset base of Rs. 15,558 crore (provisional). During FY2016, The company has reported net profits of Rs. 160.3 crore (RoA of 2.0%) on a total managed assets base of Rs. 13,345 crore as against profits of Rs. 75 crore (RoA of Rs. 2.0%) on a total managed assets base of Rs. 5,105 crore during FY2015.

Shareholding Pattern as of June, 2016

Shareholder	Total Shareholding
Jana Capital Limited	20.71%
TPG Asia VI SF Pte. Ltd	22.02%
North Haven Private Equity Asia Platinum Pte. Ltd (earlier known as MSPEA Platinum Pte. Ltd.)	16.67%
Caladium Investment Pte. Ltd	11.44%
Client Rosehill Limited	6.40%
Alpha TC Holdings Pte Ltd	6.37%
CVCI GP II Employee Rosehill Limited	3.58%
Treeline Asia Master Fund (Singapore) Pte. Ltd.	3.93%
India Financial Inclusion Fund (IFIF)	0.90%
QRG Enterprises Limited	5.77%
Vallabh Bhanshali	0.43%
Global Financial Inclusion Fund	0.51%
Enam Shares & Securities Private Limited	0.50%
Badri Narayan Pilinja	0.42%
Vallabh Bhanshali HUF	0.33%
Growth Partnership II Shiv Shankar Co-investment Trust	0.01%

Growth Partnership II Ajay Tandon Co-investment Trust	0.00%
R. Srinivasan	0.00%
V.S. Radhakrishnan	0.00%
Total	**100.00%**

Source: JFSL

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