Janalakshmi Financial Services Private Limited

	Amount in Rs. Crore	Rating Action
Non Convertible Debentures	100.00	[ICRA]A- (Positive); assigned
Non Convertible Debentures	25.00	[ICRA]A- (Positive); assigned

ICRA has assigned a rating of **[ICRA]A-** (pronounced ICRA A minus)* to the non convertible debentures of Rs. 125 crore of Janalakshmi Financial Services Private Limited (JFSPL). Instruments with [ICRA]A rating are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk. Within this category modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols. The modifiers reflect the comparative standing within the category. The outlook on the rating is **positive**. ICRA also has a **[ICRA]A-** rating with a positive outlook outstanding on Rs. 550 crore long term bank facilities and Rs. 325 crore NCD programmes of the company.

The rating continues to factor in JFSPL's strong networth of Rs. 1050 crore as on Dec-14, subsequent to the latest round of equity infusion of Rs. 462 crore completed by the company in Nov-14. Owing to the latest equity infusion the gearing of the company is currently about 2.6 times and the current capitalisation should be sufficient to fuel the growth of the company for two more years (at projected growth rate of 45%), while maintaining a leveraging of 5 times. JFSPL's ability to scale up its operations while maintaining a strict control asset quality and sustained profitability could lead to an upward revision in the rating. The rating also factors in JFSPL's sound management and strong board composition, strong systems and processes, which have enabled it to scale up its operations significantly and maintain good asset quality (0.73% Gross NPA as on December, 2014) while growing across geographies. ICRA takes note of rapid expansion plans of the company, for which it would need sizeable increase in funding lines as well as large scale recruitment and training of employees. However, ICRA expects liquidity of the company to remain comfortable in light of funding lines from about 43 lenders. The company's ability to manage such a high pace of growth will remain a key rating sensitivity. 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.

The company offers a basket of loan products as well as other liability products like pension, insurance and so on to its borrowers in urban areas, with an aim of meeting all the financial requirements of its borrowers. The company is geographically diversified across 16 states in India; in the past one year the company has opened branches in six new states and has been continuously reducing its concentration in the existing states.

These strengths are partially offset by the aggressive growth of the company in the last few years (CAGR of 135%) and modest profitability (2.02% as on Dec-14) of the company owing to relatively high operating expenses (8.9% as on Dec-14, which is high compared to peers). The profitability may be expected to remain subdued in the medium term as the company intends to make substantial investments in further improving the IT infrastructure as well as owing to further branch expansion. Nevertheless, these costs are expected to rationalise and yield benefits (in terms of better monitoring leading to reduced credit costs) over the long term. The cost of funds for JFSPL though modest is relatively high compared to its peers. Further, it would be critical for the company to maintain strong asset quality in its individual loan segment, which have historically witnessed higher delinquencies, to keep credit costs under check. As on Dec 2014, the 30+ delinquencies reported in individual loan portfolio was moderate at 5.1%. While the overall asset quality of the company is good (1.04% at 30+), the ability of the company to carry on adequate field processes and maintain good asset quality indictors while growing at a fast pace remains to be seen. Moreover, the operational and credit risks associated with the unsecured lending business—particularly given the marginal credit profile of borrowers—remain high.

* For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

JFSPL has a high focus on implementing sophisticated IT infrastructure. The company has implemented bio-metric verification of borrowers which helps in tackling the issue of fraudulent loans. Moreover, the company is also in the process of rolling out disbursements through pre-paid cards and intends to implement this across all branches by the year end. Strong bank office operations have been put in place in association with Accenture to track all field level transactions. Credit is centralised, which helps reduce the influence of group leaders or field officers on the borrowers. In the case of individual loans, the company relies on psychometric tests in addition to cash flow analysis on the borrowers. Though JFSPL provides training to borrowers before loan disbursement, in ICRA's opinion the extent of training can be increased. JFSPL also has an internal audit team which conducts surprise visits on the different branches and verifies all processes; nevertheless, in ICRA's opinion the audit sample can be increased as well as the strength of the audit team can be improved further.

Owing to its strong systems and processes, the company has been able to demonstrate high collection efficiencies; access to credit bureaus and regulatory ceiling on borrower indebtedness has reduced concerns on overleveraging and multiple lending for MFIs and has helped in curbing delinquencies. Overall, in light of high scale of operations, interest spread cap of 10%, rise in operating expenses owing to IT investments and geographical expansion, and a prudent leveraging, ICRA expects the company to regain ROE of 11-13% over medium term provided it maintains a strict control on asset quality, which along with good growth prospects, should help the company to continue mobilizing funding.

About the Company

Janalakshmi Financial Services Private Ltd (JFSPL) 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 JFSPL in 2008. The promoter shareholding continues to be in JSS (now called Jana Urban Foundation or JUF), and funds in JSS/ JUF is used to address social issues.

As on Dec 2014, JFSPL had a portfolio of about Rs. 2,956 crore. JFSPL is diversified across 146 cities in 16 states in India with the share of top 3 states viz. Karnataka, Maharashtra and Tamil Nadu being about 57.4%. JFSPL has registered a high compounded growth of 135% in the last four years. The company has been able to receive equity every year for the last four years and has raised Rs. 462 crore equity in the latest round in November 2014 from existing as well as new investors. The company has reported net profits of Rs. 47 crore (profitability of 2.02%) in the nine month period ended 31 Dec 2014 on a managed assets base of Rs. 3755 crore as against profits of Rs. 50.6 crore (profitability of Rs. 2.83%) for FY2014 on a managed assets base of Rs. 2695 crore.

Shareholding Pattern as of November 30, 2014

Jana Urban Foundation (Sec 25 Company) (Promoter)	17.98%
MSPEA Platinum Pte Ltd	17.58%
TPG Asia VI SF Pte Ltd	15.26%
Client Rosehill Ltd.	12.04%
Alpha TC Holding Pte Ltd	10.02%
CVCI GP II Employee Rosehill Ltd.	6.74%
Treeline Asia Master Fund (Singapore) Pte. Ltd.	5.01%
India Financial Inclusion Fund (IFIF)	4.93%
Global Financial Inclusion Fund	0.80%
GAWA	2.78%
QRG Enterprises Ltd	4.56%
Enam Securities	0.63%
Individual Investors	1.66%
Total	**100.00%**

Source: JFSPL

For further details please contact:
Analyst Contacts:
Ms. Vibha Batra, (Tel. No. +91-124-4545 302)
vibha@icraindia.com

Relationship Contacts:
Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: **9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: **9821086490** Email: shivakumar@icraindia.com 1802, 18th Floor, Tower 3, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone, Mumbai 400013, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Bangalore** **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: **989986490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: **989986490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: **9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	