

Jana Holdings Limited

July 27, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	750.00	750.00	PP-MLD[ICRA]BB- (Stable); revised from PP-MLD[ICRA]BB(Stable)
Total	750.00	750.00	

Rating action

ICRA has revised the rating outstanding on the Rs. 750.00-crore¹ non-convertible debenture (NCD) programme of Jana Holdings Limited (JHL) to PP-MLD[ICRA]BB- (pronounced principal protected market-linked debenture ICRA double B minus)² from PP-MLD[ICRA]BB (pronounced principal protected market-linked debenture ICRA double B). The outlook on the long-term rating remains Stable.

Rationale

The revision in rating considers the deterioration in credit risk profile of Jana Small Finance Bank Limited (JSFB, rated [ICRA]BBB (negative)³) following the continued weakness in its asset quality and earnings profile, which would impact its capitalisation going forward. JHL is the non-operative holding finance company (NOFHC) of JSFB, with a 44.9% stake as of March 2018. JSFB commenced banking operations in March 2018 after it received licence from RBI to setup small finance bank (SFB) in April 2017. The rating factors in JHL's limited financial flexibility, its significant dependence on JSFB's performance and the sensitive nature of the rated instrument to any adverse changes in JSFB's valuation, given that the NCDs are expected to be redeemed primarily from the sale of encumbered shares of JSFB and JHL's parent, Jana Capital Limited (JCL). The rating continues to factor in JSFB's geographically diversified portfolio and the flexible structure of the rated instrument with no committed annual coupons during the tenure of the instrument.

Outlook: Stable

ICRA takes note of JHL's status as the holding finance company of JSFB. The outlook may be revised to 'Positive' in case there is a substantial improvement in JSFB's overall risk profile. The outlook may be revised to 'Negative' if the credit profile of JSFB deteriorates more than the expected or if there is a sharp decline in JSFB's valuation.

Key rating drivers

Credit strengths

Holding company of JSFB, which has a geographically diversified presence – JSFB's portfolio size was Rs.7,636 crore with a member base of 44 lakh as of March 2018; Small batch loans (joint liability loans) accounted for about 77% of the portfolio. Apart from group loans, the bank offers individual loans like small business loans (nano and super-nano), enterprise loans and housing loans among others, which constituted the rest. The bank has a geographically diversified

¹100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications

³ Long term rating revised from [ICRA]A-(negative) to [ICRA]BBB (negative)

presence in India with its portfolio distributed across 18 states and two union territories. The bank intends to scale-up its exposure to micro, small, and medium enterprises and housing finance, which would support portfolio diversification over the medium term.

Credit challenges

Limited financial flexibility - JHL has limited financial flexibility given the unlisted nature of JSFB and the low income expectation (dividend income) from JSFB over the tenure of the debenture. The proceeds of these NCDs (Rs. 658 crore till FY2018) were infused as compulsorily convertible preference shares (CCPS) into JSFB (CCPS was later converted into equity). The NCDs are secured by a) JSFB's shares held by JHL, over and above the 40% regulatory requirement to be held by an NOFHC in an SFB for five years and b) shares of JCL, to the extent of 33%, held by Jana Urban Foundation. The redemption of these NCDs depends on the valuations of JSFB and JCL at the time of maturity. Of the two entities, JSFB is expected to be listed before the maturity of the NCDs while JCL would remain unlisted. ICRA also notes that, while JHL can borrow up to 125% of its net worth (55% as of March 2018), its refinancing ability would be constrained as it has to seek concurrence from current NCD holders to raise any further debt (beyond an additional amount of Rs.10 crore). Considering the various restrictions, including the majority domestic shareholding requirement at JCL and JSFB, the ability to offload the shares in a timely manner and at a reasonable valuation would be crucial.

Continued deterioration in JSFB's performance - JSFB's asset quality has weakened post demonetization. The 90+ book remained high at Rs. 3,341 crore in June 2018 compared to Rs. 3,343 crore in March 2018 (Rs. 1,990 crore in March 2017), due to steady slippages into the 90+ bucket, modest collections from the 90+ bucket and limited impact of the recovery programmes thus far. Further, as incremental business volumes remained muted, JSFB reported a net loss of Rs 2,504 crore in FY2018. ICRA takes note of the bank's efforts to improve collections through various measures including augmenting its field force, introducing settlement programs and taking actions via the legal route against delinquent borrowers. Nevertheless, resolution in the harder buckets (90+) remained weak at about 14% in June 2018 (resolution rate in 90-454 bucket was 25% and was 2% in 455+day bucket) compared to 21% in March 2018 (23.6% in September 2017). With JSFB carrying provisions of Rs. 1,672 crore in March 2018 (including Rs.161 crore of write-offs in H2FY2018), the incremental provision/write-off requirement is expected to be in the range of Rs.800-900 crore; this could move upwards if there is no significant improvement in the recoveries vis a vis the levels witnessed in FY2018. As a consequence, JSFB is expected to report sizeable losses in FY2019 too. ICRA also notes the JSFB intends to raise capital to the extent of Rs.426 crore in the near term; while this would support the capital profile, ICRA expects JSFB's gearing to increase quite sharply during FY2019 on account of the losses. JSFB's ability to revive business volumes in a steady manner, undertake effective recoveries from the overdue book and secure adequate funding lines would be crucial.

Risks related to adverse movement in JSFB's valuation – About three-fourth of the NCDs issued (Rs.658 crore) are to be redeemed at the base IRR of 16.5% with a cap of 25%, depending upon JSFB's valuation at the time of redemption over the current valuation. This makes the instrument highly sensitive to any adverse movement in JSFB's valuation as the NCDs are expected to be redeemed primarily from the sale of shares of JSFB on listing and from dividend income to be received from JSFB. Additionally, JSFB will remain exposed to risks related to adverse share price movements post the listing event, which in turn may impact JCL's valuation.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[ICRA's Credit Rating Methodology for Non-Banking Finance Companies](#)

About the company:

Incorporated on March 10, 2016, Jana Holdings Limited (JHL) is a non-banking finance company – non-operative financial holding company (NBFC-NOFHC), with a 44.9% stake in Jana Small Finance Bank Limited ([ICRA]BBB (negative)). The company received its certificate of registration from the RBI on January 27, 2017.

JHL is a wholly-owned subsidiary of Jana Capital Limited (JCL), which is a non-deposit taking Systematically Important Core Investment Company registered with the RBI. Jana Urban Foundation holds a 43.9% stake in Jana Capital Limited, foreign investors hold a 48.7% and domestic investors the rest.

In FY2018, JHL reported a net loss of Rs. 41.7 crore on a total managed asset base of Rs. 1,889.6 crore as against a net profit of Rs. 12.1 crore on a total managed asset base of Rs. 1,233.2 crore during FY2017.

Key Financial Indicators

JHL - Standalone	FY2017	FY2018
Total Income	12.2	1.3
Profit After Tax/ (loss)	12.1	(41.7)
Net Worth	1,233.1	1,190.1
Managed Portfolio	-	-
Total Managed Assets	1,233.2	1,889.6
Return on Managed Assets	2.0%	(2.7%)
Return on Net worth	2.0%	(3.4%)
Gearing	0	0.55
Gross NPA%	-	-
Net NPA%	-	-
CAR%	NA	NA

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Jul 2018	Oct 2017	FY2018	FY2017	FY2016
						PP-	PP-	
1 NCD	Long-term	750.00	750.00	MLD[ICRA] BB-(Stable)	MLD[ICRA] BB(Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount	Current Rating and Outlook
INE682V07010	NCD	9/28/2017	Equity linked*	5/28/2023	50.00	PP-MLD[ICRA]BB-(Stable)
INE682V07028	NCD	9/28/2017	Equity linked*	5/28/2023	60.00	PP-MLD[ICRA]BB-(Stable)
INE682V07036	NCD	9/28/2017	Equity linked*	5/28/2023	60.00	PP-MLD[ICRA]BB-(Stable)
INE682V07044	NCD	9/28/2017	Equity linked*	5/28/2023	100.00	PP-MLD[ICRA]BB-(Stable)
INE682V07051	NCD	9/28/2017	Equity linked*	5/28/2023	50.00	PP-MLD[ICRA]BB-(Stable)
INE682V07069	NCD	10/6/2017	Equity linked*	5/28/2023	100.00	PP-MLD[ICRA]BB-(Stable)
INE682V07077	NCD	10/6/2017	Equity linked*	5/28/2023	83.00	PP-MLD[ICRA]BB-(Stable)
INE682V07085	NCD	3/27/2018	Equity linked^	5/28/2023	155.00	PP-MLD[ICRA]BB-(Stable)
Unallocated	NCD	-	-	-	92.00	PP-MLD[ICRA]BB-(Stable)

* - coupon in the range of 4.95% and 5.05% although the coupon payment is not committed; overall IRR is equity linked with base IRR of 16.5% and a cap of 25%

^ - zero coupon; IRR is equity linked with base IRR of 20.0% and a cap of 20.35%

Source: JHL

ANALYST CONTACTS

Karthik Srinivasan
+91-124-4545847
karthiks@icraindia.com

A M Karthik
+91-44-45964308
a.karthik@icraindia.com

Govindaraj Prabhu M
+91-44-45964306
Govindaraj.m@icraindia.com

Swathi Hebbar
+91-80-4332 6404
swathi.hebbar@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents