

## Jana Small Finance Bank Limited

July 20, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Facilities	1,300.00	270.00	[ICRA]BBB (negative); revised from [ICRA]A- (negative)
Non-convertible Debentures	2,728.00	2,565.00	[ICRA]BBB (negative); revised from [ICRA]A- (negative)
Subordinated Debt	751.00	751.00	[ICRA]BBB (negative); revised from [ICRA]A- (negative)
Commercial Paper	900.00	-	[ICRA]A2+; withdrawn
Non-convertible Debentures	238.00	-	[ICRA]A- (negative); withdrawn
<b>Total</b>	<b>5,917.00</b>	<b>3,586.00</b>	

### Rating action

ICRA has revised the long-term rating outstanding on the Rs. 270.00-crore<sup>1</sup> (revised from Rs. 1,300.00 crore) long-term bank facilities, the Rs. 2,565.00-crore non-convertible debenture (NCD) programme and Rs. 751.00-crore subordinated debt programme of Jana Small Finance Bank Limited (JSFB) to [ICRA]BBB (pronounced ICRA triple B) from [ICRA]A- (pronounced ICRA A minus)<sup>2</sup>. The outlook on the long-term rating remains Negative. ICRA has withdrawn the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) on the Rs. 900.00-crore commercial paper programme of JSFB. ICRA has also withdrawn the [ICRA]A- rating with a Negative outlook on the NCD programme, aggregating Rs. 238.00 crore, as these debentures were fully redeemed on maturity and there is no amount outstanding against the rated instruments.

### Rationale

The revision in the long-term ratings considers the expected deterioration in the bank's capitalisation because of the continued weakness in JSFB's asset quality and earnings profile. ICRA notes that the resolutions in the harder buckets (90+) was modest at 21% in March 2018; resolution rate in 90-454 bucket was 23% and was 3% in 455+day bucket. This, along with the fresh slippages into the 90+ bucket, has resulted in a largely stable overall 90+dpd book, which stood at Rs. 3,343 crore<sup>3</sup> as of March 2018 compared to Rs. 3,317 crore in September 2017. The bank carried a provision of Rs. 1,672 crore<sup>4</sup> as of March 2018. The significant increase in credit cost and the slowdown in fresh loan disbursements, during FY2018, impacted JSFB's operating performance resulting in sizeable net losses. Consequently, JSFB's net worth moderated to Rs. 1,529 crore, as of March 2018, from Rs. 2,397 crore in March 2017, despite the equity infusion of Rs. 1,636 crore during the year. The asset quality remained weak during Q1 FY2019, reflected by the high 90+dpd of Rs. 3,341 crore in June 2018, due to limited recoveries from the delinquent buckets. ICRA expects the bank to witness further capital deterioration in the current fiscal as it is expected to report sizeable losses stemming from weak overall asset quality, notwithstanding the capital infusion plans (about Rs. 426 crore) in the near term. ICRA notes that JSFB's gearing<sup>5</sup> is likely to cross 10 times by

<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

<sup>3</sup> Adding back the write-off of Rs. 161 crore during H2 FY2018

<sup>4</sup> Including the write-off of Rs. 161 crore

<sup>5</sup> Including deposits as debt

March 2019. Gearing could be higher if recoveries and operating profitability, during the current fiscal, do not improve as envisaged.

The ratings take note of JSFB's initiatives to improve recoveries through settlement programmes and focussed collection efforts, to bring down its overdue book. The bank has also implemented cost-control measures including branch consolidation, rightsizing and technology optimisation, which led to some reduction in operating expenses during Q4 FY2018. Nevertheless, JSFB's ability to keep incremental slippages into the overdue buckets under control, grow its regular portfolio, which declined to Rs. 3,745 crore in June 2018 from Rs. 5,887 crore in September 2017, and improve its operating efficiency would be essential for incremental profitability.

JSFB's liquidity position is marked by unencumbered liquidity of about Rs. 584 crore as in June 2018 (down from Rs. 1,500 crore in March 2018), and the proposed equity infusion of Rs. 426 crore in the near term. ICRA takes cognisance of the ramp-up in the bank's deposit, which increased to Rs. 440 crore in June 2018 (Rs. 836 crore as on July 18, 2018) from nil in March 2018. JSFB envisages raising about Rs. 1,700 crore from refinancing institutions over the next 2-3 months. Timely funding is quite critical for JSFB's envisaged incremental business growth (disbursements of about Rs. 4,500 crore over the next six months) and for improving its operating performance. Further, it would be crucial for JSFB to maintain sufficient liquidity till it obtains scheduled commercial bank status, following which it would have access to inter-bank borrowings/liquidity adjustment facility/marginal standing facilities.

The ratings continue to factor in JSFB's geographically diversified portfolio and its experienced management team and board profile. The ratings also factor in JSFB's marginal borrower profile, and limited diversity in earnings.

## Outlook: Negative

The Negative outlook factors in the expected weakening in JSFB's capital profile in the current fiscal because of the envisaged net losses. The ratings would be downgraded further if the bank's recoveries and disbursements remain subdued, which could have a greater-than-expected impact on its earnings and capitalisation, or if the liquidity profile deteriorates on the bank's inability to mobilise external funding or deposits for its growth. The outlook would be revised to Stable in case of a steady revival in its asset quality and profitability indicators and improvement in its capital structure.

## Key rating drivers

### Credit strengths

**Geographically diversified presence in India** - JSFB has a diversified portfolio with a presence in 18 states and two union territories across India. The bank had a customer base of 44 lakh and a portfolio of Rs. 7,636 crore as of March 2018 (Rs. 7,510 crore as of June 2018), consisting mostly of small batch loans (about 77%). JSFB commenced operations as a small finance bank from March 28, 2018. 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 intends to scale up its exposure to micro, small, and medium enterprises and housing finance, which would support portfolio diversification over the medium term.

**Experienced senior management team and diverse board profile** - JSFB has a six-member board with four independent directors. It also has an experienced senior management team with significant expertise in banking and other financial services.

## Credit challenges

**Continued weakness in overdue collections impacts asset quality** - JSFB's asset quality has weakened post demonetisation. 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. ICRA takes note of the bank's efforts to improve collections through various measures including augmenting its field force, introducing settlement programmes and taking action 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). ICRA estimates the incremental provision/write-off requirement to be about Rs. 800-900 crore for FY2019, though this could move upwards if there is no significant improvement in recoveries vis-à-vis the levels witnessed in FY2018. ICRA also takes note of the strengthened sourcing norms through improved field verification of borrowers, stricter eligibility criteria and reduction in loan size and tenure for new customers although the performance of the newer loan vintages remains to be seen. Additionally, JSFB has stopped disbursements in troubled regions and limited its sourcing to certain geographies. Ability to maintain tight underwriting norms and revive its asset quality as it expands its operations would remain crucial, going forward.

**Sizeable net losses expected for FY2019; critical to control credit costs and improve operating efficiency** - JSFB reported a pre-provision loss of Rs. 1,022 crore during FY2018 compared to a profit of Rs. 557 crore during FY2017, because of interest reversals in H1 FY2018 and a decline in the operating performance owing to a sharp reduction in the performing loan book. This, along with the credit cost of Rs. 1,389 crore, resulted in a net loss of Rs. 2,504 crore in FY2018 (as against a profit of Rs. 170 crore in FY2017). JSFB has taken steps to keep its operating costs under control and has taken initiatives to reduce its annual operating expenses by about Rs. 250-300 crore in FY2019. Further, JSFB is taking steps to secure funding from financial institutions and mobilise deposits to support its business growth. The above-mentioned steps are critical to support the operating level (pre-provision) performance in the current fiscal. JSFB's net profitability, nevertheless, is likely to be impacted by the high expected credit costs during the year. ICRA expects the bank to report a minimum net loss (before tax) of about Rs. 900-1,000 crore in FY2019. This could increase further if the collection efficiency and operating profits do not improve as envisaged.

**Gearing expected to increase sharply** – JSFB's capital profile is characterised by net worth and gearing of Rs. 1,529 crore and 5.0 times, respectively, as of March 2018. During FY2018, JSFB raised capital of Rs. 1,636 crore, of which Rs. 658 crore was raised via Jana Holdings Limited (JHL; holds a 44.9% equity stake in JSFB). The bank is expected to raise an incremental fresh equity of Rs. 426 crore in the near term. Nevertheless, the gearing is expected to increase to over 10 times by March 31, 2019 from 5.0 times in March 2018. The gearing could be weaker if the collections and earnings do not improve as envisaged during the current fiscal. ICRA notes that JSFB's ability to raise further capital would be restricted to the extent of Rs. 240 crore (post raising Rs. 426 crore, based on current valuations), to comply with regulatory shareholding requirements. Thus, going forward, JSFB would have to depend on its internal generation to grow its business, which is likely to keep its gearing at high levels vis-à-vis its peers.

**Critical to tap funds in a timely manner to support growth and liquidity profile** – JSFB's funding profile comprises borrowings from banks and financial institutions, long-term debentures and refinance accounting for 43%, 48% and 9%, respectively, of the total borrowings as of May 2018. JSFB's liquidity reduced to Rs. 584 crore in June 2018 from Rs. 1,500 crore in March 2018. While the bank has managed to secure deposits (Rs. 440 crore outstanding as of June 2018), its weak financial performance is likely to constrain its ability to secure timely and adequate funding from FIs, thus exerting pressure on liquidity and business growth. The bank's ability to secure adequate funding lines in the near to medium term, to support envisaged business growth, while maintaining a comfortable liquidity profile, would be crucial from a rating perspective.

**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](#)

[ICRA's Credit Rating Methodology for Banks](#)

**About the company**

JSFB (erstwhile Janalakshmi Financial Services Limited) commenced operations as a non-banking finance company (NBFC) on March 4, 2008, and was later classified as a non-banking finance company-microfinance institution (NBFC-MFI). The bank 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 (JHL), a non-banking finance company-non-operative financial holding company (NBFC-NOFHC), holds a 44.9% stake in JSFB.

JSFB has a diversified presence across 18 states and 2 union territories in India, with a portfolio of Rs. 7,636 crore as on March 31, 2018. The share of the top 3 states of Tamil Nadu, Karnataka and Maharashtra was about 49% as on March 31, 2018. The bank raised Rs. 1,636 crore equity during FY2018 from existing and new investors.

In FY2018, JSFB reported a net loss of Rs. 2,503.8 crore on a total managed asset base of Rs. 10,022.4 crore compared to a net profit of Rs. 170.1 crore on a total managed assets base of Rs. 15,730 crore during FY2017.

**Key Financial Indicators**

<b>JSFB</b>	<b>FY 2017*</b>	<b>FY 2018</b>
Total Income	2,978	1,597
Profit After Tax/ (loss)	170	(2,504)
Net worth	2,397	1,529
Managed Portfolio	12,551	7,636
Total Managed Assets	15,730	10,022
Return on Managed Assets	1.2%	(19.4%)
Return on Net worth	9.4%	
Gearing	4.97	5.01
Gross NPA%	0.7%	42.2%
Net NPA%	0.5%	27.7%
CAR%	23.9%	34.7%

*Amount in Rs. crore; \* as an NBFC-MFI*

**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)	FY2018			FY2017			FY2016
				Jul 2018	Dec 2017	Aug 2017	Jun 2017	Mar 2017	June 2016	Dec 2015
1	Bank Facilities	270.00	270.00	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	[ICRA] A (Stable)	[ICRA] A+ (Negative)	[ICRA] A+ (Stable)	[ICRA]A (Stable)
2	NCD	2,565.00	2,565.00	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	[ICRA] A (Stable)	[ICRA] A+ (Negative)	[ICRA] A+ (Stable)	[ICRA]A (Stable)
3	Subordinated Debt	751.00	751.00	[ICRA]BBB (Negative)	[ICRA] A- (Negative)	[ICRA] A (Negative)	[ICRA] A (Stable)	[ICRA] A+ (Negative)	[ICRA] A+ (Stable)	[ICRA]A (Stable)
4	Commercial Paper Programme	900.00	-	[ICRA] A2+; withdrawn	[ICRA] A2+	[ICRA] A1	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1
5	NCD	238.00	-	[ICRA]A- (Negative); withdrawn	[ICRA] A- (Negative)	[ICRA] A (Negative)	[ICRA] A (Stable)	[ICRA] A+ (Negative)	[ICRA] A+ (Stable)	[ICRA]A (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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount	Current Rating and Outlook
NA	Term Loan 1	3-Aug-16	NA	3-Aug-18	10.71	[ICRA]BBB (Negative)
NA	Term Loan 2	27-Oct-16	NA	27-Oct-18	28.57	[ICRA]BBB (Negative)
NA	Term Loan 3	27-Nov-15	NA	28-Feb-19	12.43	[ICRA]BBB (Negative)
NA	Term Loan 4	31-Dec-16	NA	31-Dec-18	25.00	[ICRA]BBB (Negative)
NA	Term Loan 5	27-Nov-15	NA	31-Oct-18	42.59	[ICRA]BBB (Negative)
NA	Term Loan 6	26-Jul-16	NA	26-Jul-18	0.86	[ICRA]BBB (Negative)
NA	Term Loan 8	29-Aug-17	NA	29-Aug-20	142.99	[ICRA]BBB (Negative)
NA	Unallocated Amount	-	-	-	6.85	[ICRA]BBB (Negative)
INE953L07099	NCD	23-Jan-15	13.60%	23-Jan-19	120.00	[ICRA]BBB (Negative)
INE953L07156	NCD	23-Jul-15	12.85%	23-Jul-21	76	[ICRA]BBB (Negative)
INE953L07180	NCD	22-Jul-15	13.10%	22-Jul-19	50	[ICRA]BBB (Negative)
INE953L07172	NCD	22-Jul-15	12.85%	22-Jul-18	50	[ICRA]BBB (Negative)
INE953L07222	NCD	28-Jul-15	12.85%	28-Jul-18	50	[ICRA]BBB (Negative)
INE953L07248	NCD	31-Aug-15	12.85%	16-Aug-18	25	[ICRA]BBB (Negative)
INE953L08089	NCD	2-May-16	12.78%	15-May-19	100	[ICRA]BBB (Negative)
INE953L08071	NCD	21-Apr-16	12.78%	19-Apr-19	40	[ICRA]BBB (Negative)
INE953L08204	NCD	28-Sep-16	Zero Coupon	28-Sep-18	15	[ICRA]BBB (Negative)
INE953L08220	NCD	30-Nov-16	10.15%	30-Apr-20	25	[ICRA]BBB (Negative)
INE953L07255	NCD	23-Sep-15	12.70%	23-Sep-21	98	[ICRA]BBB (Negative)
INE953L07271	NCD	5-Feb-16	12.65%	8-Apr-19	100	[ICRA]BBB (Negative)
INE953L07289	NCD	31-Mar-16	12.65%	30-Mar-19	100	[ICRA]BBB (Negative)
INE953L08147	NCD	22-Jun-16	12.65%	22-Jun-19	25	[ICRA]BBB (Negative)
INE953L07230	NCD	14-Aug-15	12.50%	14-Aug-18	100	[ICRA]BBB (Negative)
INE953L07297	NCD	20-Apr-16	12.50%	19-Apr-19	60	[ICRA]BBB (Negative)
INE953L07305	NCD	3-May-16	12.50%	26-Apr-19	50	[ICRA]BBB (Negative)
INE953L07321	NCD	11-May-16	12.50%	10-May-19	50	[ICRA]BBB (Negative)
INE953L07313	NCD	3-May-16	12.50%	28-Mar-19	25	[ICRA]BBB (Negative)
INE953L08154	NCD	8-Jul-16	12.40%	8-Jul-19	100	[ICRA]BBB (Negative)
INE953L07263	NCD	31-Dec-15	12.00%	31-Dec-18	167	[ICRA]BBB (Negative)
INE953L08212	NCD	28-Sep-16	10.50%	28-Sep-19	10	[ICRA]BBB (Negative)
INE953L07339	NCD	23-May-16	1.25%	23-May-19	15	[ICRA]BBB (Negative)
INE953L08238	NCD	30-Nov-16	10.15%	29-Nov-19	10	[ICRA]BBB (Negative)
INE953L08121	NCD	14-Jun-16	Zero Coupon	15-Jul-19	50	[ICRA]BBB (Negative)
INE953L08246	NCD	21-Dec-16	10.43%	20-Dec-19	328	[ICRA]BBB (Negative)
INE953L08253	NCD	21-Dec-16	10.76%	21-Dec-20	338	[ICRA]BBB (Negative)
INE953L08261	NCD	21-Dec-16	11.10%	21-Dec-21	338	[ICRA]BBB (Negative)
INE953L08279	NCD	15-May-17	10.00%	15-May-19	25	[ICRA]BBB (Negative)
INE953L08287	NCD	15-May-17	10.10%	15-May-20	25	[ICRA]BBB (Negative)
INE953L08030	Sub debt	22-Dec-15	13.80%	22-Dec-22	330	[ICRA]BBB (Negative)
INE953L08048	Sub debt	30-Dec-15	14.00%	30-Jun-21	40	[ICRA]BBB (Negative)
INE953L08055	Sub debt	21-Mar-16	14.20%	19-May-23	80	[ICRA]BBB (Negative)
INE953L08063	Sub debt	28-Mar-16	13.35%	27-May-22	26	[ICRA]BBB (Negative)
INE953L08097	Sub debt	7-Jun-16	13.40%	7-Jun-22	50	[ICRA]BBB (Negative)
INE953L08105	Sub debt	7-Jun-16	13.40%	7-Dec-22	50	[ICRA]BBB (Negative)

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount	Current Rating and Outlook
INE953L08113	Sub debt	7-Jun-16	13.40%	7-Jun-23	50	[ICRA]BBB (Negative)
NA	Sub debt	26-Aug-15	14.25%	25-Aug-22	50	[ICRA]BBB (Negative)
NA	Sub debt	29-Dec-15	14.00%	29-Dec-22	75	[ICRA]BBB (Negative)
NA	Commercial Paper	-	-	7-365 days	900	ICRA]A2+ withdrawn
INE953L07198	NCD	24-Jul-15	12.85%	28-Jun-18	50	[ICRA]A- (negative) withdrawn
INE953L07206	NCD	24-Jul-15	12.85%	28-Jun-18	50	[ICRA]A- (negative) withdrawn
INE953L08014	NCD	11-Aug-15	12.43%	10-Aug-18	50	[ICRA]A- (negative) withdrawn
Unutilized	NCD- Unallocated	-	-	-	88	[ICRA]A- (negative) withdrawn

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