

Jana Small Finance Bank Limited

March 18, 2019

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Bank Facilities	270.00	270.00	[ICRA]BBB- (negative); revised from [ICRA]BBB (negative)
Non-convertible Debentures	2,565.00	2,565.00	[ICRA]BBB- (negative); revised from [ICRA]BBB (negative)
Subordinated Debt	751.00	751.00	[ICRA]BBB- (negative); revised from [ICRA]BBB (negative)
Total	3,586.00	3,586.00	

Rationale

The revision in the long-term rating considers JSFB's weaker than expected earnings performance with loss before tax of Rs.1,658 crore (provisional) during 9MFY2019 and significant deterioration in the bank's capitalization profile with gearing¹ of 17.1x as on December 31, 2018 (as per unaudited results; compared to 5.0x as on March 31, 2018). Continued operating losses because of high operating costs and limited incremental business and, elevated credit costs owing to modest recoveries from harder buckets (455+days) weighed down on the bank's profitability and capital profile, as its networth stood modest at Rs.413 crore as on December 31, 2018 despite equity infusion to the extent of Rs.451 crore during April-December 2018. For 9MFY2019, JSFB's credit cost stood at Rs.1,211 crore (provisions of Rs.430 crore and write-off of Rs.781 crore) while the gross non-performing assets (GNPA) and net non-performing assets (NNPA) stood at Rs.2,336 crore and Rs.463 crore as on December 31, 2018. JSFB's 455+ day bucket (including write offs) increased to about Rs.2,670 crore in December 2018 from Rs.1,049.7 crore in March 2018. ICRA however notes that incremental fresh slippages from new originations starting January 2018 has been significantly lower which is expected to reduce the bank's credit costs going forward.

During H1 FY2019, the bank raised equity of Rs.306 crore from external investors and has subsequently raised an additional Rs.145 crore in December 2018 and another Rs.150 crore in January 2019 from its parent Jana Holdings Limited (JHL)². Additionally, JSFB has outlined capital raise plans to the extent of Rs.700 crore over the next few months, out of which, about Rs.300 crore is expected to be received before March 31, 2019 thereby taking the total capital infusion during FY2019 to about Rs.901 crore. However, given its current high leverage and weak operating performance, ICRA believes the bank's capital profile, even post the proposed Rs.400 crore equity infusion in FY2020, would remain weak. Going forward, the bank's ability to revive its operating performance would hinge on its ability to improve its funding profile to achieve an optimal portfolio size and improve its operating efficiencies.

The bank's deposit mobilization has been healthy and stood at over Rs.3,000 crore as on January 31, 2019 (compared to Rs.440 crore in June 2018) which has supported its liquidity profile. However, ICRA notes that cash and liquid investments (excluding the regulatory requirement) stood modest at about Rs.250-300 crore; access to interbank lines however provides cushion. Deposits with ticket size >Rs.1.0 crore accounted for 52% of the total deposits in February 2019, however, share of deposits with residual tenure of more than 180 days stood at 87%. The bank would have to

¹ Including deposits as debt

² Raised as NCD at Jana Holdings Limited

enhance the deposit profile by increasing the share of longer term and retail deposits from a liquidity stand point. Additionally, its ability to secure refinancing lines from institutions including NABARD and SIDBI would also be crucial from a liquidity perspective.

The rating continues 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 its earnings.

Outlook: Negative

The Negative outlook factors in the expected weakness in JSFB's earnings and capital profile going forward. The ratings would be downgraded further if the bank's recoveries and disbursements remain subdued thereby prolonging any meaningful improvement in its earnings and capitalisation, or if its liquidity profile deteriorates because of the bank's inability to mobilise adequate external funding or deposits. The outlook would be revised to stable in case of a steady revival in its 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 with top 3 states (Tamil Nadu, Karnataka and Maharashtra) accounted for 51.2% of its portfolio as on November 30, 2018. 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. As on November 30, 2018, small batch loans (group loans) accounted for 71.2% of its portfolio of Rs.7,164 crore followed by nano loans (8.6%), agri loans (7.2%) and loans to micro and small enterprises (7.1%).

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

Weak recoveries from harder overdue buckets continues to weigh down on asset quality - JSFB's asset quality has remained weak with 90+ dpd³ at 31.7% (Rs.2,336.4 crore excluding write-off and Rs.3,264.4 crore including write-off) as on December 31, 2018 compared to Rs. 3,270.6 crore⁴ in March 2018 (Rs. 1,990 crore in March 2017) because of modest collections from the overdue buckets and limited impact of the various recovery programmes, thus far. ICRA takes note of the bank's efforts to improve collections through various measures including augmenting its collections field force, introducing settlement programmes, engaging collection agencies and acting via the legal route against delinquent borrowers. Nevertheless, recoveries from harder buckets (455+ delinquencies) have remained lower than expected. Against the estimated monthly principal recoveries of about Rs.15-30 crore from the 455+ days bucket in Q2FY2019, the bank's estimated recoveries were in the range of Rs.8-10 crore. ICRA estimates the total provision/write-off for FY2019 to be around Rs.1,400-1,500 crore, though this could increase if the recoveries do not improve.

³ Days past due

⁴ including write-off

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. Additionally, JSFB has stopped disbursements in troubled regions and limited its sourcing to certain geographies. These measures have aided in improving the asset quality in the portfolio generated from Q4FY2018. Ability to maintain tight underwriting norms and revive its asset quality as it expands its operations would remain crucial, going forward.

Continued weakness in the earnings profile – For H1 FY2019, JSFB reported pre-provision operating loss of Rs.291.0 crore owing to operating inefficiencies attributed to a sharp reduction in the performing loan book. The trend in operating losses continued during Q3 FY2019 with operating loss of Rs.155 crore (as per unaudited results; operating loss of Rs.446 crore in 9M FY2019). This, along with credit costs of Rs.1,211 crore during 9M FY2019 has resulted in loss before taxes of Rs.1,658 crore (compared to credit cost and loss before tax of Rs.1,000.8 crore and Rs.1,291.8 crore respectively in H1 FY2019).

JSFB has taken steps to keep its operating costs under control and has taken initiatives to reduce its monthly operating expenses. Further, JSFB is taking steps to secure funding from financial institutions and mobilise low-cost deposits to support its business growth as well as aid cost reduction. The above-mentioned steps are critical to support the operating level (pre-provision) performance going forward. JSFB's net profitability, nevertheless, is likely to be impacted by the high credit costs and ICRA expects net losses to the extent of Rs.2,000 crore for FY2019. Given the current suboptimal scale of its operations, ICRA notes that the operating losses are expected to continue in FY2020 if the bank does not scale up its advances book or if the operating efficiencies do not improve further.

Deterioration in the capital profile - JSFB's capital profile is characterised by net worth and gearing of Rs.413 crore and 17.1x respectively (as per unaudited results) as on December 31, 2018 (compared to Rs.1,529 crore and 5.0 times, respectively, as of March 2018). During the 9M FY2019, the bank raised capital of Rs.451 crore; however, despite the same the gearing has deteriorated significantly owing to substantial losses during the period. JSFB has outlined capital raise plans to the extent of Rs.700 crore over the next few months, out of which about Rs.300 crore is expected to be received before March 31, 2019 taking the total capital infusion during FY2019 to about Rs.901 crore. However, given its current high leverage, ICRA believes the bank's capital profile, even post the proposed Rs 400 crore equity infusion in FY2020, would remain weak. ICRA notes that JSFB's ability to raise further capital would be restricted 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.

Liquidity Position

JSFB's funding profile comprises borrowings from banks and financial institutions, long-term debentures and deposits. JSFB's liquidity has been supported by healthy traction in deposit mobilization by the bank over the last few months. As on February 28, 2019, JSFB had a deposit base of Rs.3,206 crore – up from Rs.443 crore as on June 30, 2018. Given that the share of deposits with ticket size more than Rs.1.0 crore and short-term remains high; ICRA therefore notes that the bank would have to enhance the deposit profile by increasing the share of longer term retail deposits. Additionally, its ability to secure refinancing lines from NABARD and SIDBI would also be crucial from a liquidity perspective. The bank, apart from the deposits raised, has not been able to source funding or refinance from other sources over the last 12-18 months. Consequently, its cash and liquid investments (Excluding the regulatory requirement) stood modest at about Rs.250-300 crore; the bank has undrawn interbank lines of Rs.440 crore.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Banks
Parent/Group Support	NA
Consolidation / Standalone	Rating is based on standalone financial statements of the bank.

About the company

Jana Small Finance Bank (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 45.37% stake in JSFB as on February 28, 2019.

JSFB has a diversified presence across 18 states and 2 union territories in India, with a portfolio of Rs.7,164 crore as on November 30, 2018. The share of the top 3 states of Tamil Nadu, Karnataka and Maharashtra was about 51% as on November 30, 2018. The bank raised Rs. 1,636 crore equity during FY2018 and Rs.601 crore during 11M FY2019 from existing and new investors.

For H1 FY2019, the bank has reported net loss of Rs.1,291.8 crore on managed portfolio of Rs.6,941 crore as on September 30, 2018. 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

JSFB	FY 2017*	FY 2018	H1 FY2019
Total Income	2,978	1,597	663
Profit After Tax/ (loss)	170	(2,504)	(1,292)
Net worth	2,397	1,529	548
Managed Portfolio	12,551	7,636	6,941
Total Managed Assets	15,730	10,022	9,840
Return on Managed Assets	1.2%	(19.4%)	(25.9%)
Return on Net worth	9.4%	(127.6%)	(248.8%)
Gearing	4.97	5.01	12.9
Gross NPA%	0.7%	42.2%	35.3%
Net NPA%	0.5%	27.7%	13.8%
CAR%	23.9%	34.7%	21.2%

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	Current Rating (FY2019)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Mar 2019	Jul 2018	FY2018			FY2017	FY2016
							Dec 2017	Aug 2017	Jun 2017	Mar 2017	Dec 2015
1	Bank Facilities	Long-term	270.00	270.00	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	[ICRA] A (Stable)	[ICRA] A+ (Negative)	[ICRA] A (Stable)
2	NCD	Long-term	2,565.00	2,565.00	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA] A (Negative)	[ICRA] A (Stable)	[ICRA] A+ (Negative)	[ICRA] A (Stable)
3	Subordinated Debt	Long-term	751.00	751.00	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA] A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A (Stable)
4	Commercial Paper Programme	Short term	900.00	-	-	[ICRA]A2+ withdrawn	[ICRA]A2+	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
5	NCD	Long-term	238.00	-	-	[ICRA]A- (Negative); withdrawn	[ICRA] A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[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

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	37.50	[ICRA]BBB- (Negative)
NA	Term Loan 5	27-Nov-15	NA	31-Oct-18	53.20	[ICRA]BBB- (Negative)
NA	Term Loan 6	26-Jul-16	NA	26-Jul-18	1.71	[ICRA]BBB- (Negative)
NA	Term Loan 7	28-Jun-16	NA	28-Jun-18	9.52	[ICRA]BBB- (Negative)
NA	Term Loan 8	29-Aug-17	NA	29-Aug-20	149.89	[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)
			Zero			
INE953L08204	NCD	28-Sep-16	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)
			Zero			
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)
			Zero			
INE953L08121	NCD	14-Jun-16	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)

ISIN	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Rated Amount*	Current Rating and Outlook
INE953L08105	Sub debt	7-Jun-16	13.40%	7-Dec-22	50	[ICRA]BBB- (Negative)
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)

Source: JSFB; *Amounts outstanding as on July 20, 2018

Annexure - 2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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