

RETAIL EQUITY RESEARCH

Jana Small Finance Bank Ltd.

Banking

SENSEX: 72,186

NIFTY: 21,929

SUBSCRIBE

Price Range Rs.393 - Rs.414

A fastest growing SFB with a diversified portfolio....

Jana Small Finance Bank Ltd. (JSFBL), headquartered in Bangalore, India, initiated its operations in March 2018. Formerly recognized as Janalakshmi Financial Services, it stood as India's largest microfinance institution, established in 2006. JSFBL primarily offers deposit products (including demand, savings, and term deposits) and lending services, comprising both secured and unsecured loans. Its network spans 771 banking outlets, with 278 located in unbanked rural areas, across 22 states and two UTs. Serving ~12mn customers since its inception in 2008, JSFBL boasts 4.87mn active customers as of September 30, 2023. Key shareholders of the bank include TPG, HarbourVest Group, Amansa Capital, Morgan Stanley, and Hero Ventures.

- SFB's (Small Finance Banks) deposits have grown at a CAGR of 35.6% over FY21-23. The total deposits of SFBs in FY23 stood at Rs. 1,612.1 bn compared to Rs. 1,203.8 bn in FY22, clocking a YoY growth of 33.9%.
- SFB industry's advances and deposits are expected to grow at a CAGR of 33.4% - 44.0% from FY23-FY25, driven by strong rural expansion, new products, cross-selling, low-cost funding, and organized credit channel expansion. (source: FSIAPL Analysis)
- JSFBL's gross advances grew at a CAGR of ~23% over FY21-23, while deposits grew at a CAGR of 15.2% over the same period, led by improved customer retention, cross-selling opportunities, and a lower cost of funds.
- JSFBL is the 4th largest SFB in terms of AUM (advances) as of H1FY24, with an AUM of Rs. 213.5bn, and its market share of AUM in the SFB segment as of H1FY24 is at 10.7%.
- The cost of funds has reduced from 8.61% in FY21 to 7.55% in H1FY24, aided by a diversified retail deposit base.
- The bank has significantly reduced its GNPA (gross NPA) ratio to 2.44% in H1FY24 from 3.94% in FY23 and 7.25% in FY21. The NNPA (net NPA) ratio has also declined to 0.87% in H1FY24 from 2.64% in FY23 and 5.33% in FY21. Further, the bank has raised the provision coverage ratio to 64.9% in H1FY24 from 27.89% in FY21.
- The bank has maintained healthy net interest margins at 7.78% in H1FY24, up from 7.47% in H1FY23 and 7.73% in FY23.
- The cost to income ratio of the bank stands at 58.48% in H1FY24. The RoA of the bank is strong at 1.6% and the RoE at 19.6% in H1FY24.
- The company has performed a pre-IPO placement of 2,439,607 equity shares at an issue price of Rs. 414 each (including a premium of ₹ 404 per Equity Share), aggregating to Rs.100cr.
- At the upper price band of Rs.414, JSFBL is available at a P/Bv of 1.4x (FY24E annualised), which appears to be reasonably priced compared to its peers. Considering its rapid growth in deposits, diversified loan portfolio, strong brand equity, improved asset quality ratios, healthy return ratios, and financial inclusion, we assign a "Subscribe" rating on a medium to long term basis.

Purpose of IPO

The IPO consists of fresh issue of Rs. 462cr and an offer for sale (OFS) of Rs.108cr by the selling shareholder totalling to Rs.570cr. The net proceeds from fresh issue to be utilised to augment Bank's Tier - I capital base to meet the bank's future capital requirements.

Key Risks

- High credit risk: ~43% of H1FY24 advances are unsecured. Future efforts aim to elevate the mix of secured loans.
- Regional concentration risk : ~40% of gross advances is from top 3 states.
- Increasing competition from other SFBs.

Peer Valuation

Company	MCap(₹ cr)	AUM(₹ cr)	AUM Growth(%)	BV(₹)	EPS(₹)	RoE (%)	RoA (%)	P/BV	P/E(x)	CMP(₹)
Jana Small Finance Bank		20,101	30.9	172	27.4	16.8	1.1	2.7	17	414
Ujjivan Small Finance Bank		24,085	37.7	21	5.9	31.8	3.9	2.7	9.5	56
Equitas Small Finance Bank		27,861	35.2	46	4.7	12.2	1.9	2.3	22.1	104
Utkarsh Small Finance bank		13,957	31.3	22	4.5	22.8	2.4	2.7	13.1	59

Source: Geojit Research, Bloomberg; Valuations of JSFBL are based on upper end of the price band (post issue), Financials as per FY23 consolidated.

Issue Details	
Date of opening	February 07, 2024
Date of closing	February 09, 2024
Total No. of shares offered (Cr.)	1.38
Post Issue No. of shares (Cr)	10.5
Price Band	₹ 393- ₹414
Face Value	₹10
Bid Lot	36 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,904
Maximum application for retail (upper price band for 13 lot)	₹ 1,93,752
Listing	BSE,NSE
Lead Managers	ICICI Securities Ltd, Axis Capital, SBI Capital Markets
Registrar	KFin Technologies Ltd.

Issue size (upper price)	Rs.cr
Fresh Issue	462
OFS	108
Total Issue	570

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group	25	23
Public & Others	75	77
Total	100	100

Issue structure	Allocation (%)	Size Rs.cr
Retail (Including emp. Reservation)	35	199
Non-Institutional	15	85
QIB	50	285
	-	-
Total	100.0	570.0

Y.E March (₹ cr) Consol.	FY22	FY23	H1FY24
Net Interest Income (NII)	1,390	1,660	988
% Change	10	19	-
Net Interest Margin %	7.3	7.7	7.8
PAT Adj.	17	256	213
% Change	-	1365	-
EPS Diluted	1.7	24.5	20.4
P/E (x)	248	17	20
P/BV (x)	2.4	2.7	1.4*
RoE (%)	1.5	16.8	19.6
RoA (%)	0.1	1.1	1.6

*Annualised

Business Description:

As per Fitch report, JSFBL is the fourth largest Small Finance Bank in terms of AUM and the fourth largest Small Finance Bank in terms of deposit size as of September 30, 2023. The primary secured loan products are secured business loans, micro loans against property (Micro LAP), MSME loans, affordable housing loans, term loans to NBFC, loans against fixed deposits, two-wheeler loans and gold loans. The primary unsecured loan products are individual and micro business loans, agricultural and allied loans, and group loans (group loans are offered to a group of women as per the Joint Liability Group (JLG) model). The agricultural and allied loans as a percentage of gross advances have increased from 13.10% as of March 31, 2021, to 16.93% as of September 30, 2023.

Particulars	As at September 30,		As at March 31,					
	2023		2023		2022		2021	
	Gross advances (₹ in millions)	% of total gross advances	Gross advances (₹ in millions)	% of total gross advances	Gross advances (₹ in millions)	% of total gross advances	Gross advances (₹ in millions)	% of total gross advances
Secured advances	122,577.38	57.42	99,047.54	55.02	70,271.26	53.03	50,760.00	42.87
Unsecured advances:	90,893.92	42.58	80,959.87	44.98	62,231.95	46.97	67,629.82	57.13
<i>Of which:</i>								
<i>Agricultural and allied loans</i>	<i>36,141.39</i>	<i>16.93</i>	<i>30,944.43</i>	<i>17.19</i>	<i>18,770.00</i>	<i>14.17</i>	<i>15,510.70</i>	<i>13.10</i>
Total gross advances	213,471.30	100	180,007.41	100.00	132,503.20	100.00	118,389.82	100.00

Source: Geojit Research, RHP

They are also a corporate agent for third-party life insurance products, general (non-life) insurance products and health insurance products, including COVID-19 insurance products. The company also offer Point of Sales (POS) terminals and payment gateway services through merchant acquiring partners.

Key Strengths

- A digitalised bank and the majority of our services are available in digital form to customers.
- Integrated risk and governance framework
- Customer-centric organization with more than 16 years' experience in serving underbanked and underserved customers.
- Pan-India presence with strong brand recognition.
- Fast growing Retail Deposits base and diversified deposit franchise
- Proven execution ability

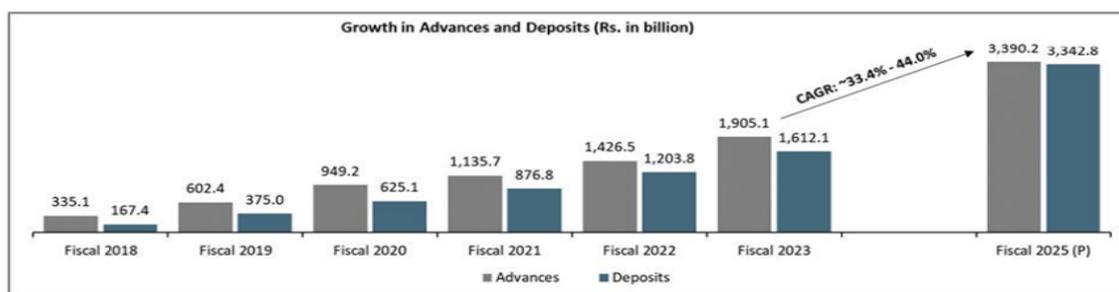
Key Strategies

- Focus on accelerating the secured loans book with the purpose of meeting customers' needs and diversifying our lending book.
- Reshape unsecured loans (Microfinance Loans) business.
- Improve risk profile.
- Enhance the growth of Retail Deposits.
- Alliances with third parties from banking to broking.
- Deepen customer relationships.
- Continued focus on digitized operations.

Industry outlook

SFBs offer basic banking services such as payment, accepting deposits and lending to the unserved and the underserved segments of the Indian economy, including small businesses, marginal farmers, micro and small industries, and the unorganized sector. SFBs are focused on serving the customers at the bottom of the pyramid to drive financial inclusion. The growth in the industry is illustrated by the exponential growth in both advances and deposits and is supported by the robust rural growth, new product offerings and associated cross-selling opportunities, which will drive the SFBs' market share to multi folds in the future. (Source: Fitch Report).

The exponential growth in the SFB (Small Finance Bank) industry is illustrated by the growth in both loans and deposits. As per FSIAPL's analysis, the advances and deposits in the SFB industry are projected to increase at a CAGR of 33.4% to 44.0% from Fiscal 2023 to Fiscal 2025.



Source: RBI, FSIAPL Analysis

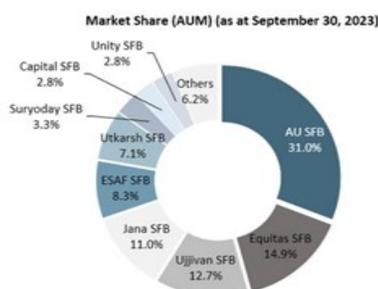
Note:

1. 'P' means projected.
2. Numbers are as at March 31, 2018, 2019, 2020, 2021, 2022 and 2023
3. Deposits shown under this table exclude inter-bank deposits.

Source: Geojit Research, RHP

Industry outlook contd...

SFBs currently hold a minor market share of 1.34% in advances and 0.86% in deposits of the entire banking sector as at March 31, 2023. However, these banks have a good deposit mobilisation and outreach among the under-banked masses, which would drive their market share multi folds in the foreseeable future. The total deposits of SFBs in 2022-23 stood at Rs. 1,612.1 billion compared to Rs. 1,203.8 billion in 2021-22, clocking a y-o-y growth of 33.9%. Factors that will support the growth of the SFBs include robust rural growth, new product offerings and associated cross-selling opportunities on both the liability and asset side, geographical diversification and opening of new branches, knowledge of local stakeholders, access to low-cost funds, improved risk management systems and expansion of organized credit channels.



Source: Company's Investor Presentation, Quarterly Financial statements, FSIAPL Analysis
 Note: Others include Fincare SFB, North East SFB and Shivalik SFB. AUM of Fincare SFB, North East SFB and Shivalik SFB is as at March 31, 2023. AUM for all other players is as at September 30, 2023.

Source: Geojit Research, RHP

SFBs' deposits have increased at the annual rate of 33.9% in Fiscal 2023 as compared to the previous year. Low cost of client acquisition over the long term due to wider reach, a customer-centric approach, technology usage and high interest rates, as compared to traditional banks, are the major reasons for the deposit growth. Jana SFB has a major presence in Tamil Nadu (13.7% of its total gross advances as at March 31, 2023) while its top three states in terms of gross advances accounted for 38.8% of its total Gross Advances as at March 31, 2023.

Promoter and promoter group

JCL and JHL are the Promoters of the Bank. JCL, along with its nominees, holds 100% of the issued and paid-up share capital of JHL. As on the date of this Red Herring Prospectus, JHL, holds 23,575,790 Equity Shares equivalent to 25.20% of the issued, subscribed and paid-up equity share capital of the Bank on a fully diluted basis. JCL does not directly hold any Equity Shares as on the date of this Red Herring Prospectus. JCL indirectly holds the Equity Shares held by JHL.

As on the date of this Red Herring Prospectus, the Board comprises of nine Directors including two Executive Directors and seven Non-Executive Directors (including five Independent Directors, of whom one is a woman Director).

Brief Biographies of directors

- **Subhash Chandra Khuntia**, is the Part-Time Chairman and an Independent Director of the Bank.
- **Ajay Kanwal**, is the Managing Director and Chief Executive Officer of the Bank.
- **Krishnan Subramania Raman**, is an Executive Director and Chief Credit and Collection Officer of the Bank.
- **Ramesh Ramanathan**, is a Non-Executive Non-Independent Director of the Bank.
- **Rahul Khosla**, is a Non-Executive Non-Independent Nominee Director of the Bank and has been appointed on behalf of TPG Asia VI SF Pte Ltd.
- **Chitra Talwar**, is a Non-Executive Independent Director of the Bank.
- **Ramalingam Ramaseshan**, is a Non-Executive Independent Director of the Bank.
- **Kumbla Srinivas Nayak**, is a Non-Executive Independent Director of the Bank.
- **Pammi Vijaya Kumar**, is a Non-Executive Independent Director of the Bank.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY22	FY23	H1FY24
Interest Income	2,727	3,075	1,846
Interest Expense	1,337	1,415	876
Net Interest Income	1,390	1,660	988
% Change	10	19	-
Non-Interest Income	336	625	352
Operating income	1,726	2,285	1,339
Operating Expenses	1,139	1,285	783
Total Income	3,062	3,700	2,216
Total Expenditure	2,476	2,700	1,659
Pre-Prov.Profit	587	1,000	556
% Change	34	70	-
Provisions & Contingencies	569	744	343
% Change	55	31	-
Reported PAT	17	256	213
% Change	-76	1,365	-
Post Issue No.of Shares (Cr.)	10.5	10.5	10.5
Adj. EPS (Rs)	1.7	24.5	20.4
% Change	-76	1,365	-

BALANCE SHEET

Y.E March (Rs cr)	FY22	FY23	H1FY24
Liabilities			
Capital	201.4	325.0	343.5
Reserve & Surplus	999.3	1,472.3	2,225.4
Deposit	13,536	16,334	1,893.7
Borrowings	4,509.8	6,277.5	5,313.5
Provision & Other Liabilities	941.7	1,235.0	1,286.6
Total Liabilities	20,189	25,644	28,106
Assets			
Fixed Assets	171.6	127.8	133.0
Investments	5,065.3	5,221.3	5,509.2
Advances	13,006.7	17,759.6	21,008.7
Other Assets	408.0	447.9	442.8
Cash & Bank Balances	1,537.1	2,087.3	1,012.1
Total Assets	20,189	25,644	28,106

RATIOS

Y.E March	FY22	FY23	H1FY24
AUM Rs.Cr	15,347	20,102	23,030
Growth	20	31	-
Per Share Data (Rs.)			
EPS Diluted	1.7	24.5	20.4
BVPS (Post Issue)	114.8	171.8	289.8*
Key Ratios			
Yield on loans/Advances %	19.9	18.1	17.2
Cost of Funds %	7.4	7.0	7.4
Cost to income	66.0	56.2	58.5
Net Interest Margin %	7.3	7.7	7.8
Credit Cost Ratio	4.7	5.0	3.5
Capital %			
CRAR %	15.3	15.6	17.5
Tier I	11.8	13.0	15.7
Net worth Rs.Cr	1,185	1,778	2,547
Asset Quality %			
GNPA	5.7	3.9	2.4
NNPA	4.0	2.6	0.9
PCR	32.2	34.0	64.9
Return Ratios (%)			
RoE	1.5	16.8	19.6
RoA	0.1	1.1	1.6
Valuations			
P/E (x)	248	17	20
P/BV (x)	3.6	2.4	1.4*

*Annualised

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