JSFB/SEC/2024-25/139

31st January 2025

National Stock Exchange of India Ltd. **Exchange Plaza, C-1, Block G,** **Bandra Kurla Complex, Bandra (East),** **Mumbai 400051.**	**BSE Limited** **Phiroze Jeejeebhoy Towers,** **Dalal Street,** **Mumbai 400001.**

Sub: Revision in credit rating - Upgrade

Ref: Regulation 30, 51 and 55 of SEBI (Listing Obligation and Disclosure Requirements), Regulations, 2015

Dear Sir/Madam,

With reference to the captioned subject, please find below details of Credit rating details as on date for the Non-convertible Debentures ("NCD") of Bank.

The details required pursuant to Regulation 55 of the Listing Regulations read with SEBI Master Circular no. SEBI/HO/DDHS/PoD1/P/CIR/2023/108 dated 30th June 2023 is as follows:

Details of credit rating									
S. No.	**ISIN**	**Name of the Credit Rating Agency**	**Credit rating assigned**	**Outlook**	**Rating Action**	**Specify other rating action**	**Date of credit rating**	**Verification status of credit rating agencies**	**Date of verification**
1.	INE953L08329	India Ratings and Research Pvt Ltd	IND A/ stable	Stable	Upgraded	-	31st January 2025	Verified	31st January 2025
2.	INE953L08295								
3.	INE953L08303								
4.	INE953L08311								

The rating rationale has been annexed to this letter and the same will also be uploaded to the Bank's website at www.janabank.com.

You are requested to kindly take the same on your record and oblige.

Thank you
Yours faithfully
For Jana Small Finance Bank Limited

LAKSHMI RAJA NARAYANAMURTHY
Digitally signed by LAKSHMI RAJA NARAYANAMURTHY
Date: 2025.01.31 19:58:47 +05'30'

Lakshmi R N
Company Secretary & Compliance Officer

Registered Office:
Jana Small Finance Bank Limited
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India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Jana Small Finance Bank's NCDs and FDs to 'IND A'/Stable

Jan 31, 2025 | Private Sector Bank

India Ratings and Research (Ind-Ra) has upgraded Jana Small Finance Bank Limited's (JSFB) debt instruments to 'IND A' from 'IND A-'. The Outlook is Stable. The detailed rating action is as follows:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Non-convertible debenture	-	-	-	INR3,500	IND A/Stable	Upgraded
Fixed deposit	-	-	-	INR200,000	IND A/Stable	Upgraded

*Details in Annexure

Analytical Approach

Ind-Ra continues to take a standalone view of JSFB to arrive at the ratings.

Detailed Rationale of the Rating Action

The upgrade reflects the continued increase in the proportion of secured assets in JSFB's portfolio, demonstrating its ability to manage assets better than its peers amid a challenging environment. Additionally, JSFB has shown continued growth in the scale of operations, while maintaining adequate profitability and capitalisation. The ratings, however, were constrained by the high refinancing and repayment risk at the holding companies (Jana Capital Limited (debt rated at 'IND BB'/Stable) and Jana Holdings Limited (debt rated at 'IND BB'/Stable) and the ability of the bank to garner low-cost deposits, resulting in a reduction in the gap on the cost of deposits with its peers, which remains to be rating monitorable.

List of Key Rating Drivers

Strengths

- Diversified portfolio mix with growing share of secured products
- Ability to manage asset quality metrics better than peers amid challenging environment
- Maintained adequate profitability
- Adequate capitalisation post public issue

Weaknesses

- Ability to garner low-cost deposits to be monitorable
- High refinancing risk at holding companies

Detailed Description of Key Rating Drivers

Diversified Portfolio Mix with Growing Share of Secured Products: At 9MFYE25, JSFB's total advances stood at INR279.8 billion (FY24: INR247.5 billion; FY23: INR198.1 billion; FY22: INR152.6 billion). It had a well-diversified portfolio across products such as affordable housing loans (20%), micro loan against property (LAP; 19%), secured small, medium enterprise (SME) loans (14%), vehicle loans, gold loans and loans to non-bank financial companies (15%) and unsecured microfinance loans (32%) as of 1HFY25. JSFB was mainly operating in the microfinance segment after becoming a bank in 2018.

JSFB is strategically shifting to a secured loan portfolio; the share of secured loans in its portfolio increased to 68% at 9MFYE25 (FYE24: 60%; FYE23: 55%; FYE22: 53%). Ind-Ra expects this to further increase to around 80% by FY27-FY28, with it mainly focusing on home loans, LAP and secured SME loans. Ind-Ra expects JSFB to maintain loan growth of around 20% over the medium term and might not launch any new products.

Maintained Better-than-peers' Asset Quality Metrics amid Challenging Macro Environment: JSFB's gross non-performing assets (NPA)/net NPA continuously improved to 2.0%/0.5% in FY24 (FY23: 3.6%/2.4%; FY22: 5%/3.4%; FY21: 6.7%/4.8%). The bank has also improved its provision coverage ratio (PCR) to 73.7% in FY24 (FY23: 34%; FY22: 32.2%; FY21: 27.9%). As of 9MFY25, the gross NPA/net NPA increased to 2.7%/0.99%, mainly amid an increase in delinquencies in the microfinance portfolio with credit costs reducing to 3.1% (FY24: 3.3%; FY23: 4.8%; FY22: 4.3%). JSFB's shift to the secured portfolio mix over the past few years with cautious growth in the microfinance portfolio (CAGR of 3.95% over FY21-9MFY25, much lower than the industry's 20%-25%) supported the bank in managing the current asset quality stress cycle compared to its peers, as per the agency. Ind-Ra does not expect any further major stress in the microfinance portfolio and any further increase in delinquencies would be manageable. The bank's PCR stood at 66.9% in 9MFY25, Ind-Ra expects the bank to maintain the PCR of 65%-70% in the near to medium term. With a substantial and growing proportion of secured portfolio mix and the adequate provisioning in place, the agency expects its credit costs to remain at 2%-3% in the near to medium term.

Adequate Capitalisation post Public Issue: JSFB's capital ratios were constrained prior to FY23 and were just above the minimum regulatory capital ratios of 15%. However, its tier 1 capital ratio improved to 19% at FYE24 (FYE23: 13.02%; FYE22: 11.83%; FYE21: 11.75%) and the total capital adequacy ratio to 20.4% (15.57%; 15.26%; 15.51%), supported by it raising INR5.46 billion through a pre-initial public offering (IPO), INR4.6 billion through the IPO and the improved profitability, leading to higher accretion to reserves. In 9MFY25, the total capital adequacy stood at 20.4% (including 9MFY25 profits).

Its capital ratios were also constrained by a high net NPA/equity ratio. However, with the improving provisioning levels, the net NPA/equity improved to comfortable levels of 6.3% in 9MFY25 (FY24: 3.7%; FY23: 26.0%; FY22: 42.8%; FY21: 54.9%).

Adequate Profitability Profile: JSFB's net interest margins (NIMs) slightly declined to 7.6% in 9MFY25 (FY24: 8.0%; FY23: 7.7%; FY22: 7.3%; FY21: 8.4%) amid a decline in disbursements in high-yielding microfinance loans, but it remained higher than other mainstream banks as it caters to high-yielding informal segment borrowers. The cost-to-income ratio increased slightly to 60.1% in 9MFY25 (FY24: 57.4%; FY23: 56.2%; FY22: 66.0%) amid the decline in NIMs. Overall, the pre-provision operating profit (PPOP) buffers improved over FY22- 9MFY25, with PPOP/credit cost standing at 1.6x in 9MFY25 (FY24: 1.8x; FY23: 1.3x; FY22: 1x). The bank's profit stood at INR3.78 billion in 9MFY25 (FY24: INR6.7 billion; FY23: INR2.56 billion; FY22: INR0.05 billion; FY21: INR0.84 billion; FY20: INR0.3 billion) with a slight decline its return on average asset (RoA) to 1.5% (1.8%; 1.1%; 0.03%; 0.5%; 0.3%). The agency believes the bank has the scale to be adequately profitable and expects the credit costs to moderate to 1.5%-2% with the rise of secured loans in the portfolio, which could help it maintain a RoA of 1.8%-2 % in the near- to medium term.

Ability to Garner Low-cost Deposit Monitorable: The share of deposits in non-equity liabilities rose to 87% in 9MFY25 (FY24: 81%; FY23: 68%; FY22: 71%; FY21: 69%), largely due to the bank's increased focus on digital banking and higher deposit rates than mainstream banks. The current account and saving account (CASA) ratio to the total deposits remained moderate at 18.4% in 9MFY24 (FY24: 19.7%; FY23: 20.2%; FY22: 22.5%; FY21: 16.3%). JSFB's cost of funds increased over FY24- 9MFY25, in line with the increase in policy rates to 8% in 9MFY25 (FY24: 7.8%; FY23: 7.0%; FY22: 7.4%; FY21: 8.6%). The cost of funds remained slightly higher than its peer small finance banks. The management aims to improve the bank's CASA ratio to around 30% in the near- to medium term. Its ability to continue to garner deposits while reducing the spread between the mainstream banks remains a key rating monitorable over the medium to long term.

High Refinancing Risk at Holding Companies: The holding companies of the bank has raised NCDs worth INR30 billion (NCDs held by the one of the major shareholders) as of December 2024. The NCDs need to be repaid to the extent of the principal and at the rate of return promised to the investors. Although the holding companies were able to service its debt repayments in the past through fresh NCD issuances, it continues to face refinancing risk, given the limited financial flexibility of the holding companies as they do not have any operations of their own and the repayment of the NCDs is contingent upon the bank's standalone performance and the liquidation of the promoters' stake in the bank, which is held by the holding companies.

Liquidity

Adequate: JSFB maintained strong liquidity coverage ratio of 279% in 9MFY25 (FY24: 296%, FY23: 510%; FY22: 555%, FY21: 1,200%), well above the minimum regulatory requirement of 100% supported by 61% of bulk deposit are non-callable and 89.8% of bulk deposits are contracted at one-year and above. The bank, however, had an asset-liability mismatch of 15.4% in the up to one-year bucket as on 30 December 2024, given substantial amount of long -tenor affordable housing and SME loans. However, this is adequately covered by its excess statutory liquidity requirement of INR12 billion as of 9MFY25 and unutilised lines available from refinancing institutions of over INR11 billion.

Rating Sensitivities

Positive: Continued growth in the scale of operations while improving its profitability with RoA of over 1.8% on a consistent basis, ability to garner low-cost deposits with reduction in cost of funds in line with peers, maintaining adequate capitalisation and a continuous demonstration of ability to manage its asset quality better than peers could lead to a positive rating action.

Negative: The inability to manage the asset quality, leading to a sharp rise in the credit costs, failure to mobilise sufficient deposits, capitalisation levels (tier I capital risk adequacy ratio) falling below 15.0% or sustained deterioration in the liquidity buffers could lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on JSFB, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

Headquartered in Bengaluru, JSFB commenced operations on 28 March 2018. At 9MFYE25, the bank had 808 banking outlets across 22 states and two union territories.

Key Financial Indicators

Particulars	**FY24**	**FY23**
Total assets (INR billion)	325.7	256.4
Total equity (INR billion)	35.7	17.9
Net profit (INR billion)	5.14	2.56
Return on average assets (%)	1.8	1.1
Tier 1 capital (%)	19.3	13.0
Source: JSFB, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Outlook	
				28 February 2024	2 February 2024
Fixed deposit	Long-term	INR200,000	IND A/Stable	IND A-/Stable	IND A-/Stable
Non-convertible debentures	Long-term	INR3,500	IND A/Stable	IND A-/Stable	-

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fixed deposit	Low
Non-convertible debentures	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE953L08329	22 December 2015	13.8	7 July 2027	INR750	IND A/Stable
NCDs	INE953L08295	29 June 2019	14.5	29 June 2025	INR1750	IND A/Stable
NCDs	INE953L08303	10 July 2019	13.15	10 July 2025	INR 500	IND A/Stable
NCDs	INE953L08311	31 August 2021	13.5	30 November 2026	INR500	IND A/Stable

Source: NSDL, JSFB

Contact

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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APPLICABLE CRITERIA AND POLICIES

Rating of Financial Institutions Legacy Hybrids and Sub-Debt

Evaluating Corporate Governance

Financial Institutions Rating Criteria

The Rating Process