Jana Holdings Limited

March 18, 2019

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]B+ (Negative); revised from PP-MLD [ICRA]BB- (Stable)
Total	750.00	750.00	

Rationale

The revision in rating considers the deterioration in credit risk profile of Jana Small Finance Bank Limited (JSFB, rated [ICRA]BBB- (negative)[1]) and increase in JHL's leverage; its gearing increased to 0.8x as on February 28, 2019 compared to 0.6x as on March 31, 2018 following the additional debt raise of about Rs.300 crore during Q3 and Q4 FY2019, which has been in turn infused as equity in JSFB.

JHL is the non-operating financial holding company (NOFHC) of JSFB, with a 44.4% stake as of February 2019. 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 however draws comfort from the flexible structure of the rated instrument with no committed annual coupons during the tenure of the instrument.

Outlook: Negative

The Negative outlook factors the continued expected weakness in JSFB's earnings and capital profile. The rating would be downgraded further if JSFB's credit profile deteriorates or if JHL's or its parent entity's leverage increases. The outlook would be revised to stable in case of a steady revival in JSFB's performance and as JHL' leverage moderates.

Key rating drivers

Credit strengths

Holding company of JSFB, which has a geographically diversified presence – With a portfolio size of Rs.7,373 crore as on December 31, 2018, 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%).

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[1] *Long term rating revised from [ICRA]BBB (negative) to [ICRA]BBB- (negative) in March 2019*

Credit challenges

Limited financial flexibility and increase in leverage - 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 debentures. The proceeds of these NCDs (Rs. 958 crore till February 2019) 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 (78% as of February 2019), 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). Accordingly, the company sought and received approval from its existing NCD holders (TPG Asia VI SF Pte. Ltd, Caladium Investment and Edelweiss) which has led to increase in borrowings from Rs.658 crore as on March 31, 2018 to Rs.958 crore as on February 28, 2019. As part of this additional debt raise, TPG Asia VI SF Pte. Ltd has subordinated its debt at JHL to Edelweiss and Caladium Investments and is on par with the new lenders onboarded (Manipal Group and Centrum Group). However, 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 remained weak with 90+ dpd[2] 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 crore[3] in March 2018 (including write-off) (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.

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). ICRA expects JSFB's net losses to be in the range 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.

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.

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[2] Days past due

[3] including write-off

Risks related to adverse movement in JSFB's valuation – NCDs issued (Rs.958 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.

Liquidity Position

JHL's liquidity position remains weak with entire fund raise at JHL being down-streamed as equity capital into JSFB. However, flexible structure of the rated instrument with no committed annual coupons during the tenure of the instrument provides comfort.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies
Parent/Group Support	Rating factors in performance of Jana Small Finance Bank Limited (*rated [ICRA]BBB- (negative)*) in which JHL held 44.4% as on February 28, 2019.
Consolidation / Standalone	Rating is based on standalone financial statements of the company

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 44.4% stake in Jana Small Finance Bank Limited ([ICRA]BBB- (negative)) as on February 28, 2019. 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	Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	March 2019	Jul 2018	FY2018	FY2017	FY2016
							Oct 2017		
1	NCD	Long-term	750.00	750.00	PP-MLD [ICRA] B+ (Negative)	PP-MLD [ICRA] BB-(Stable)	PP-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]B+ (Negative)
INE682V07028	NCD	9/28/2017	Equity linked*	5/28/2023	60.00	PP-MLD[ICRA]B+ (Negative)
INE682V07036	NCD	9/28/2017	Equity linked*	5/28/2023	60.00	PP-MLD[ICRA]B+ (Negative)
INE682V07044	NCD	9/28/2017	Equity linked*	5/28/2023	100.00	PP-MLD[ICRA]B+ (Negative)
INE682V07051	NCD	9/28/2017	Equity linked*	5/28/2023	50.00	PP-MLD[ICRA]B+ (Negative)
INE682V07069	NCD	10/6/2017	Equity linked*	5/28/2023	100.00	PP-MLD[ICRA]B+ (Negative)
INE682V07077	NCD	10/6/2017	Equity linked*	5/28/2023	83.00	PP-MLD[ICRA]B+ (Negative)
INE682V07085	NCD	3/27/2018	Equity linked^	5/28/2023	155.00	PP-MLD[ICRA]B+ (Negative)
Unallocated	NCD	-	-	-	92.00	PP-MLD[ICRA]B+ (Negative)

** - 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

Annexure - 2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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