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India Ratings Downgrades Jana Holdings's NCDs to 'IND B-', Places it on Rating Watch with Negative Implications

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India Ratings and Research (Ind-Ra) has downgraded the rating on Jana Holdings Limited's (JHL) non-convertible debentures (NCDs) to 'IND B-' from IND B+ while placing it on Rating Watch with Negative Implications as follows:

Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Rating Watch	Rating Action
NCDs*				INR5.48 (reduced from INR6.3)	IND B-/Rating Watch with Negative Implications	Downgraded; Placed on Watch with Negative Implications

*Details in Annexure

Analytical Approach: To arrive at the rating, Ind-Ra continues to take a consolidated view of the credit profiles of JHL and its 100% parent Jana Capital Limited (JCL, debt rated at IND B-/Rating Watch with Negative Implications) as both the entities have a cross-default clause with each other's indebtedness. The rating considers the credit profile of Jana Small Finance Bank (JSFB; 42.84% stake held by JHL), using Ind-Ra's Parent-Subsidiary Linkage criteria.

JCL, a non-deposit taking non-bank finance company-core investment company, holds 100% stake in JHL. JHL, a subsidiary of JCL, has limited financial strength. It is a non-operating financial holding company of JSFB (42.88% stake held by JHL at end-December 2022) and the value of its investments is derived solely from its shareholding in JSFB. The value of the stake in JSFB is largely subject to the bank's incremental performance (banking operations commenced in March 2018).

The rated NCDs are held by Manipal Health Systems Pvt. Ltd. and TPG Asia VI SF Pte Ltd and are junior to JHL's other issues. A common independent director serving on the boards of JHL and Ind-Ra did not participate in the rating process.

The downgrade and Rating Watch with Negative Implications reflect the consistently deteriorating financial risk profile of JCL as well as JHL's, which is a 42.88% shareholder of JSFB (JCL holds 100% in JHL) with net losses, weak capitalisation, stretched liquidity and high refinancing risks over the near term, given the limited financial flexibility of the company to repay its near-term debt maturities in May 2023. A major portion of JHL's and JCL's near-term debt maturities is held by its key shareholders. The group is exploring refinancing to ensure the timely repayment of the maturing NCDs.

The agency also notes that minimum promoter shareholding of 40% in the bank to be held for five years after the commencement of operations expires at end-March 2023. The Rating Watch will be resolved before the near-term debt maturities are due in May 2023.

Key Rating Drivers

High Refinancing and Valuation Risks for Holding Companies: The issued NCDs face refinancing risks. The NCDs need to be repaid to the extent of the principal and the rate of return promised to the investors. JHL has sizable repayments of INR15.3 billion due in May 2023. Ind-Ra will continue to monitor the repayment efforts taken by the company in the near term.

Weak Standalone Financial Profile for JHL: JHL's earnings profile remains weak with a net loss of INR2,469 million in 9MFY23 (net loss of INR2,433.2 million in FY22). Moreover, JHL is not meeting the minimum consolidated capital adequacy ratio (CAR) of 15% and the standalone leverage ratio of 1.25x as per the regulatory requirements for a non-operating financial holding company. It is also not meeting the minimum net owned funds requirement. The auditor's report on JHL for FY22 mentions the material uncertainty related to a going concern, considering the accumulated losses, the resultant erosion in the net worth and the breaches in the regulatory financial parameters as stated above.

Liquidity Indicator for JHL - Poor: JHL does not have cash flows to service its debt obligations and will have to depend on the monetisation of its stake in JSFB or the secondary sale of shares, refinance among other options, before the maturity date of the respective instruments. The agency expects no/limited dividend income from JSFB over the medium term. JHL holds a 42.88% stake in JSFB and is in the process of listing the bank. JHL and JCL are also in the process of getting merged for which the consent from the 90% creditors is pending. Ind-Ra expects this merger to be completed over the near term. Furthermore, the debt raised by both the holding companies are in the form of zero-coupon bonds that would have lumpy pay-outs on maturity, adding to the liquidity demands.

Bank's Portfolio Mix in Favour of Secured Loans: JSFB is strategically shifting towards a secured loan portfolio and the share of secured portfolio in its portfolio increased to 55% at end-9MFY23 from 47% at end-March 2022. JSFB has also been lowering its group loan exposure continuously, which came down to 5% at end-9MFY23 from around 16% at end-March 2022. Ind-Ra believes the group loan portfolio will continue to decline with the share of secured portfolio going up. Ind-Ra believes this will improve the asset quality of the bank over the medium term.

Impact of COVID-19 Continues to Weigh on JSFB's Asset Quality; Seasoning of the Secured Portfolio to be Seen: JSFB's asset quality deteriorated to 6.4% at end-December 2022 from 5.0% at end-March 2022 largely on account of its gross non-performing assets (GNPAs) increasing to INR10.60 billion from INR7.56 billion, with maximum coming from unsecured individual loan (46% of GNPAs). JSFB had written off assets worth INR5.85 billion in 2022 with most of it coming from unsecured loans (group loan). The net non-performing assets (NNPAs) stood at 3.2% at end-December 2022 (FYE22: 3.4%, FYE21: 5%, FYE20: 1.4%). The provision has been increased to INR4.78 billion in December 2022 from INR2.43 billion in March 2022 because of which JSFB's provision coverage ratio (PCR) ratio improved to 45% in December 2022 from 32% in March 2022; however, the ratio is still moderately low. Given the increasing proportion of secured loans in the portfolio, the bank is likely to increase the provision cover modestly over the medium term.

Modest Profitability Expectations, Credit Costs from Secured Portfolio to be Seen: At end-9MFY23, the company reported improved-but-modest profit of INR1.75 billion (FY22: INR0.05 billion, FY21: INR0.84 billion, FY20: INR0.3 billion). The bank credit cost increased to 3.6% in 9MFY23 from 2.5% in March 2020, mainly due to write-offs from the unsecured portfolio. The agency believes the bank has the scale to be modestly profitable and expects the credit costs to moderate with the rise of secured loans in the portfolio, which could boost the profitability over the medium term.

Capital Ratios of JSFB remain Constrained: At end-9MFY23, JSFB reported a tier-1 capital ratio of 11.75% (FY22: 11.83%; FYE21: 11.75%) and a total capital adequacy ratio of 15.6% (15.26%; 15.51%), both lower than its peers'. Furthermore, since the bank's provisioning levels are low and its net NPA/equity was high at 34% at end-9MFY23 (March 2022: 42.7%), it will need to build higher capital buffers, especially if the recovery slows. JSFB has been supported by regular equity infusions in the past from investors with the capital infusion from January 2022 to December 2022 standing at INR4.03 billion. The bank had also raised INR3.40 billion equity in FY20, INR10.90 billion in FY19 and INR16.40 billion in FY18 from the existing and new investors. As per the licensing guidelines, the bank was going to list itself on the stock exchanges (Bombay Stock Exchange/National Stock Exchange) by March 2021. However, it has been delayed due to the pandemic and thus is still under process.

Liquidity Indicator for JSFB – Adequate: JSFB maintained excess statutory liquidity reserves of INR50.63 billion in FY22 and INR50.23 billion in 9MFY23, in addition to the cash reserves that it needs to maintain as part of the regulatory requirement. The bank's liquidity coverage ratio stood at 450% at end-December 2022 (FYE22: 555%; FYE21: 1,199.67%). The bank also had unutilised lines worth INR5 billion from refinancing institutions at end-December 2022.

JSFB has also been able to mobilise substantial deposits, with the term deposits increasing to INR120 billion in 9MFY23 (FY22: INR104.8 billion), and the current and savings accounts to INR31.8 billion (INR30.5 billion). The total deposits stood at INR152.26 billion at end-9MFY23, of which, more than 80% have a tenor of more than one year. Given the substantial traction in low-cost deposits, the cost of funds for JSFB was stable at 7.1% in 9MFY23 (FY22: 7.1%, FY20: 7.6%). The cost of funds was also supported by a rollover of 50%-60% of its fixed deposits which was raised at high interest rates two-to-three year earlier. Ind-Ra expects the share of the current account saving account to decline over the medium term with a rise in the interest rates putting some pressure on the cost of funds.

Rating Sensitivities

The Rating Watch with Negative Implications indicates that the ratings may either be downgraded or affirmed upon more clarity on the repayments of the upcoming NCD maturities. The agency will continue to monitor the developments across the arrangements for the same.

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 JHL, 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.

Company Profile

JHL is registered as a non-operating financial holding company according to the regulatory guidelines, and is promoted by JCL, to hold the promoter stake in JSFB.

FINANCIAL SUMMARY (STANDALONE)

Particulars	**9MFY23**	**FY22**
Total assets (INR billion)	22.4	21.4
Total equity (INR billion)	0.64	2.36
Net income (INR billion)	-2.47	-2.43
Return on average assets (%)	-15.1	-11.7
Source: JHL, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook					
	Rating Type	Rated Limits (billion)	Rating	22 March 2022	24 January 2022	30 December 2021	1 December 2021	8 October 2021	8 Octob
NCDs	Long-term	INR5.48	IND B-/Rating Watch with Negative Implications	IND B+/Stable	IND B+/Stable	IND B+/Stable	IND B+/Stable	IND B+/Stable	IND B+

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCDs	INE682V07093	30 November 2018	5%	30 November 2023	INR1.45	IND B-/Rating Watch with Negative Implications
NCDs	INE682V08091	21 December 2021	0%	21 December 2023	INR2.25	IND B-/Rating Watch with Negative Implications
NCDs	INE682V07150	17 January 2022	0%	1 April 2024	INR0.25	IND B-/Rating Watch with Negative Implications
NCDs	INE682V08117	31 January 2022	0%	1 April 2024	INR0.58	IND B-/Rating Watch with Negative Implications
NCDs	INE682V08125	28 February 2022	0%	1 April 2024	INR0.25	IND B-/Rating Watch with Negative Implications
NCDs	INE682V08133	28 March 2022	0%	1 April 2024	INR0.42	IND B-/Rating Watch with Negative Implications

NCDs	INE682V08141	31 May 2022	0%	1April 2024	INR0.28	IND B-/Rating Watch with Negative Implications
NCDs	INE682V08109	4 January 2022	0%	1 April 2024	INR0.4	WD (Paid in full)
NCDs	INE682V08109	17 January 2022	0%	1 April 2024	INR0.25	WD (Paid in full)
NCD (Unutilised)					INR1.13	WD*

*Withdrawn as unutilised

Complexity Level of Instruments

Instrument Type	**Complexity Indicator**
NCDs	Low

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

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APPLICABLE CRITERIA

Financial Institutions Rating Criteria

Rating FI Subsidiaries and Holding Companies

The Rating Process

Evaluating Corporate Governance

DETAILED FINANCIAL SUMMARY

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