

Company Overview

Headquartered in Bengaluru, Jana Small Finance Bank Ltd. (Jana SFB) was incorporated in 2006. The financial services company was converted into SFB by the RBI in 2018. In terms of AUM and deposit size, Jana SFB is the fourth-largest SFB serving nearly 12 million customers as of September 30, 2023. The company has 771 banking outlets including 278 banking outlets in unbanked rural centres in 22 states and two union territories. The SFB has focussed on secured loan products that consist of 57.4% of the total loans and focuses on business loans, microloans against property, MSME loans, affordable housing loans, term loans to NBFC, loans against fixed deposits, two-wheeler loans, and gold loans. The balance 42.6% consists of an unsecured loan book that offers 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). In addition to providing banking operations, the SFB is a corporate agent for third-party life insurance products, general (non-life) insurance products, and health insurance products, including COVID-19 insurance products. It also offers Point of Sales (POS) terminals and payment gateway services through its merchant-acquiring partners.

Objects of the issue

The offer comprises fresh issue and offer for sale. The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Towards augmenting the bank's Tier-I capital base to meet the bank's future capital requirements; and
- ⇒ General corporate purposes.

Investment Rationale

Fast growing retail deposit base and diversified deposit franchise

The SFB has been able to leverage the strength of the "Jana" brand to rapidly grow its deposit portfolio since the commencement of operations as an SFB in March 2018. Jana SFB's deposit products comprise current accounts, savings accounts, recurring deposits, and term deposits where a variety of term deposits with multiple interest payment options, along with competitive interest rates is offered. Its deposits increased from Rs. 123,162.6 million as at March 31, 2021, to Rs. 163,340.2 million as at March 31, 2023, representing a CAGR of 15.2%. This has further increased to Rs. 189,367.2 million as of September 30, 2023 to be among the top four SFBs in India in terms of deposit size. To concentrate on growing its retail deposits, the SFB is implementing a daily sales rhythm where each member of its sales staff at its branches has set a daily target of meeting with 15 potential retail deposit customers, generating 10 leads and converting five customers. This will improve sales productivity, which coupled with customer activation with the help of a dedicated sales and monitoring process, will increase retail deposits, thereby leading to a reduction in the overall cost of acquisition of retail deposits and its cost of deposits.

Focus on accelerating the secured loan book and diversifying the lending book

Jana SFB plans to further accelerate its gross secured advances by (i) offering multiple products to its existing customers including evaluating new products such as used two-wheeler loans; (ii) focusing penetration into current states and expanding the oversight of hubs around 100 kilometres covering Tier 1 centres (having a population of 100,000 or more) and Tier 2 centres (having a population between 50,000 and 99,999); (iii) enhancing its location strategy by mapping industry performance and tightening policies; (iv) focusing on the right combination of customer segment and collateral type; and (v) enhancing its digital capabilities to source and serve customers. With a focus on affordable housing loans and loans against property, the SFB can secure better credit at lower costs and opportunities for cross-selling under the secured loan book. Additionally, it continues to cross-sell gold loans to microfinance institutions' customers and maximize output through product and pricing strategies.

Issue Details

Offer Period	07 th Feb, 2024 - 09 th Feb, 2024
Price Band	Rs. 393 to Rs. 414
Bid Lot	36
Listing	BSE & NSE
Issue Size (no. of shares in mn)	13.8
Issue Size (Rs. in bn)	5.7
Face Value (Rs.)	10

Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM	ICICI Securities, SBI Capital Markets
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Registrar	KFin Technologies Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter	25.23%	22.54%
Public - Other S/S	7.94%	4.59%
Public - Others	66.83%	72.87%
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Jana Small Finance Bank Ltd.

Valuation and Outlook

The SFBs have been making strong inroads into the credit market and enabling financial inclusiveness across the country. These SFBs have good deposit mobilization and outreach among the under-banked masses, which would drive their market share multi-fold in the foreseeable future. The exponential growth in the SFB industry is illustrated by the growth in both loans and deposits. SFBs' target audience is the low-income segment who can be wooed with a sachet-level product suite. Unlike NBFCs, which expand horizontally with a special focus product, SFBs have a chance to expand vertically and horizontally. Jana has transitioned its focus from microfinance loans to expanding its secured loan book, including affordable housing loans, secured business loans, gold loans, MSME loans, and two-wheeler loans. As a result, the proportion of Jana SFB's gross secured advances has increased from 55.4% as at September 30, 2022, to 57.4% as at September 30, 2023. As of September 30, 2023, microfinance loans accounted for around 42.4% of its portfolio, with the balance being constituted by secured advances such as MSME loans (15%), loans to NBFCs (6.5%), gold loans (1.3%) and others (19.4%). The key trigger of Jana SFB's strong fundamentals is that it intends to strengthen its liability franchise with a focus on growing its deposit base to attain a stable and low-cost source of funding. **As the lender will utilize the net proceeds of the fresh equity issue to augment its Tier-I capital base, its capital adequacy will enhance and lead to a stable leverage position. At the current P/BV multiple of 1.2x based on book value as on September 2023, we believe the company is reasonably valued and advise investors to "Subscribe" to the issue from a medium to long-term perspective.**

Key Risks

- ⇒ Jana SFB has provided new loans to microfinance loan borrowers who had NPAs, with earlier NPAs being netted off with the proceeds of new loans. This poses a risk of further deterioration in asset quality and increasing credit risk.
- ⇒ The SFB has unsecured loans that have a higher credit risk than secured loans as the vast majority of customers availing microfinance loans have limited sources of income (annual household income of up to Rs. 3,00,000) and savings. Generally, these customers do not have a high level of financial resilience, and unsecured loans are not supported by collateral, thereby posing higher credit risk.
- ⇒ The lender may face asset-liability mismatches which could affect its liquidity and consequently affect the financial condition, results of operations, and cash flows.



Jana Small Finance Bank Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
I. INCOME				
Interest earned	24,977	27,265	30,750	18,639
Other income	2,230	3,358	6,249	3,516
TOTAL	27,207	30,624	36,999	22,156
II. EXPENDITURE				
Interest expended	12,346	13,368	14,150	8,763
Operating expenses	10,473	11,388	12,845	7,832
Provisions and contingencies	3,666	5,693	7,444	3,429
TOTAL	26,485	30,449	34,439	20,024
III. PROFIT/(LOSS)				
Net profit/(loss) for the period / year	723	175	2,560	2,132
Add/(Less): Prior period item	0	0	0	0
Balance in Profit and Loss Account brought forward	(41,267)	(40,952)	(40,830)	(39,079)
Transfer from Investment Fluctuation Reserve	0	0	0	0
TOTAL	(40,544)	(40,778)	(38,271)	(36,947)
IV. APPROPRIATIONS				
Transfer to Statutory Reserve	211	14	640	0
Transfer to Capital Reserve	31	31	9	0
Transfer to Investment Reserve Account	0	3	0	0
Transfer to Investment Fluctuation Reserve	166	6	159	200
Balance carried over to Balance Sheet	(40,952)	(40,830)	(39,079)	(37,147)
TOTAL	(40,544)	(40,778)	(38,271)	(36,947)
V. EARNINGS/(LOSS) PER EQUITY SHARE				
Basic (Rs.)	14.25	3.44	47.47	33.26
Diluted (Rs.)	13.46	3.21	42.64	29.45

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Cash Flow from operating activities	6,153	8,586	(11,372)	7,836
Cash flow from investing activities	(12,657)	(13,304)	(4,345)	1,102
Cash flow from financing activities	19,166	(2,395)	21,036	(4,071)
Net increase/(decrease) in cash and cash equivalents	12,662	(7,113)	5,320	(10,805)
Cash and cash equivalents at the beginning of the period	9,800	22,462	15,349	20,669
Cash and cash equivalents at the end of the period	22,462	15,349	20,669	9,864

Source: RHP, BP Equities Research



Jana Small Finance Bank Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
CAPITAL & LIABILITIES				
Capital	2,007	2,014	3,250	3,435
Reserve and Surplus	9,141	9,993	14,723	22,254
Deposits	1,23,163	1,35,365	1,63,340	1,89,367
Borrowings	48,153	45,098	62,775	53,135
Other Liabilities and provisions	8,323	9,417	12,350	12,866
Total	1,90,787	2,01,887	2,56,437	2,81,059
ASSETS				
Cash and Balances with Reserve Bank of India	21,253	15,300	10,109	9,768
Balances With banks and Money at call and Short Notice	1,345	71	10,764	353
Investments	46,978	50,653	52,212	55,092
Advances	1,15,997	1,30,067	1,77,596	2,10,087
Fixed assets	2,121	1,716	1,278	1,330
Other Assets	3,094	4,080	4,479	4,428
Total	1,90,787	2,01,887	2,56,437	2,81,059
Contingent Liabilities	475	417	772	1,037
Bills for Collection	0	0	0	0

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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