India Ratings & Research
A Fitch Group Company

Login

India Ratings Downgrades Jana Capital's NCDs to 'IND B-'; Places Rating on Rating Watch with Negative Implications

Mar 21, 2023 | Holding Company

India Ratings and Research (Ind-Ra) has downgraded the rating on Jana Capital Limited's (JCL) 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*	-	-	-	INR2.5	IND B-/Rating Watch with Negative Implications	Downgraded, placed on Rating 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 JCL and its 100% subsidiary Jana Holdings Limited (JHL; 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 has limited financial strength. It is a non-operating financial holding company of JSFB (42.84% stake held by JHL) 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 INR2.5 billion NCDs, issued to TPG Asia VI India Markets Pte. Ltd, are junior to all other issues raised by JHL. Nevertheless, the NCDs raised by JHL and JCL have a cross-default clause with each other's indebtedness. The NCDs are created in the favour of Catalyst Trusteeship Limited and are subservient to the first ranking pledge created for the benefit of the holders of the NCDs issued by JHL over the equity shares of JSFB held by JHL until the senior instruments are paid-off on their due dates.

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.

A common independent director serving on the boards of JCL and Ind-Ra did not participate in the rating process.

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 high rate of return promised to the investors. JCL's NCDs have a cross-default clause with the existing indebtedness of JHL. JHL has sizable repayments of INR15.3 billion and JCL of INR3 billion due in May 2023. Ind-Ra will continue to monitor the repayment efforts taken by the company over the near term.

Liquidity Indicator for JCL - Poor: JCL 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 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. Furthermore, the debt raised by both the holding companies are in the form of zero-coupon bonds that is leading to lumpy pay-outs on maturity in May 2023.

Weak Standalone Financial Profile for JCL: JCL's earnings profile remains weak with a net loss of INR2,800 million in 9MFY23 (FY22: net loss of INR2,748.5 million). Moreover, JCL is not meeting the minimum consolidated capital adequacy ratio (CAR) of 15% as per the regulatory requirements for an non-banking financial institute-core investment company (NBFI- CIC). The auditor's report on JCL for FY22 indicates concerns related to the going concern principle for JCL considering the accumulated losses, the resultant erosion in the net worth and the breaches in the regulatory financial parameters as stated above.

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 JCL, 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

JCL was incorporated on 26 March 2015 to carry on the business of an investment company and to invest, buy, sell or deal in any share, stock, and debenture. The company received a certificate of registration dated 24 March 2017 from the Reserve Bank of India as a non-banking financial institution – non-deposit taking – systematically important core investment company under section 45IA of the Reserve Bank of India Act, 1934. JSFB had total advances of INR161 billion and a diversified presence across 23 states and union territories in India at end-December 2022.

FINANCIAL SUMMARY (STANDALONE)

Particulars (INR billion)	9MFY23	FY22
Total assets	0.65	2.36

Total equity	-2.6	0.18
Net income	-2.8	-2.7
Return on average assets (%)	-96.05	-54.96
Source: JCL, 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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Rating Watch				Historical Rating/Outlook			
	Rating Type	Rated Limits (billion)	Rating	30 June 2022	8 October 2021	8 October 2020	1 November 2019	7 October 2019
NCDs	Long-term	INR2.5	IND B-/Rating Watch with Negative Implications	IND B+/Stable	IND B+/Stable	IND B+/Stable	IND B+/Stable	Provisional IND B+/Stable

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)
NCDs	INE028U08016	30 October 2019	5%	31 May 2023	INR1.5
NCDs	INE028U08024	30 June 2022	0%	1 April 2025	INR0.5
NCDs	INE028U08024	29 July 2022	0%	1 April 2025	INR0.27
NCDs (Unutilised)					INR0.32

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.

Contact

Primary Analyst
Aishwary Khandelwal
Senior Analyst
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001700
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Jindal Haria
Director
+91 22 40001750

Chairperson
Prakash Agarwal
Director and Head Financial Institutions
+91 22 40001753

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication
+91 22 40356121

APPLICABLE CRITERIA

Financial Institutions Rating Criteria

Rating FI Subsidiaries and Holding Companies

The Rating Process

Evaluating Corporate Governance

DETAILED FINANCIAL SUMMARY

Click Here to Download

DISCLAIMER