



**LONG TERM SUBSCRIBE**

**IPO Report**

04<sup>th</sup> Feb'24

**Snapshot**

Jana Small Finance Bank is the fourth largest Small Finance Bank in terms of AUM and the fourth largest Small Finance Bank in terms of deposit size as at September 30, 2023. As at September 30, 2023, bank had 771 banking outlets, including 278 banking outlets in unbanked rural centres, in 22 states and two union territories. Bank have served nearly 12 million customers since 2008, including 4.87 million active customers as at September 30, 2023.

**VALUATION**

Company is bringing the issue at price band of Rs 393-414 per share at p/b multiple of 0.99x on post issue book value basis. Jana Small finance Bank is Digitalised bank and majority services are available in digital form to customers. Bank has integrated risk and governance framework along with Professional and experienced management and Board . Bank is Customer-centric organization with more than 16 years' experience in serving underbanked and underserved customers . Bank has Pan-India presence with strong brand recognition & fast growing Retail Deposits base and diversified deposit franchise along with Proven execution ability Hence ,looking after all above we recommend “Long Term Subscribe” on issue.

<b>Price Band (Rs./Share)</b>	<b>393-414</b>
<b>Opening date of the issue</b>	<b>07<sup>th</sup> Feb '2024</b>
<b>Closing Date of the issue</b>	<b>09<sup>th</sup> Feb '2024</b>
<b>No of shares pre issue</b>	93430855 Eq Shares
<b>Issue Size</b>	Rs 565-570 Cr
<b>Fresh issue</b>	Rs 462 Cr
<b>Offer For Sale</b>	2608629 Eq Shares
<b>Face Value (Rs/ share)</b>	Rs 10/share
<b>Bid Lot</b>	36
<b>Employee reservation</b>	Rs 13.5 Cr

<b>BIDDING DETAILS</b>	
<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 6720980 Eq Shares)
<b>Non-Institutional</b>	15% of the offer (Approx 2016295 Eq Shares)
<b>Retail</b>	35 % of the offer ( Approx 4704688 Eq Shares)
<b>Employee Reservation</b>	326086 Equity Shares
<b>Lead managers</b>	Axis Capital, ICICI Securities, SBI Capital Markets
<b>Registrar to the issue</b>	KFin Technologies Ltd

**WHAT WE LIKE**

**Fast growing Retail Deposits base and diversified deposit franchise**

Bank's deposits increased from ₹123,162.58 million as at March 31, 2021 to ₹163,340.16 million as at March 31, 2023, representing a CAGR of 15.16%, and further increased to ₹189,367.24 million as at September 30, 2023, an increase of 15.93%. Jana Small Finance Bank was among the top four Small Finance Banks in India in terms of deposit size as at September 30, 2023.

**Pan-India presence with strong brand recognition**

As at September 30, 2023, bank had 771 banking outlets, including 278 banking outlets in unbanked rural centres, in 22 states and two union territories. Bank's pan-India presence has enabled bank to reduce its concentration risk. Bank have served nearly 12 million customers since 2008, including 4.87 million active customers as at September 30, 2023. In the half year ended September 30, 2023 and Fiscals 2023, 2022 and 2021, bank added 0.30 million, 0.91 million, 0.51 million and 0.08 million new customers, respectively.

**Professional and experienced management and Board**

Ajay Kanwal, bank's Managing Director and Chief Executive Officer, has more than 33 years' experience in financial services and was previously, among other roles, the Regional CEO, ASEAN and South Asia at Standard Chartered Bank in India and Singapore before joining bank in August 2017. Other members of bank's Key Managerial Personnel and Senior Management Personnel have held various leadership positions in the banking sector, including at Standard Chartered Bank, State Bank of India, Citibank, HDFC Bank and Kotak Mahindra Bank, and their experience has helped bank to introduce to international best practices in risk management, compliance and governance. Bank's Key Managerial Personnel and Senior Management Personnel (combined) have an average of 27 years' working in financial services organizations and collectively have extensive experience in banking, credit evaluation, risk management, collections, operations, treasury and technology. Bank's Shareholders include TPG, HarbourVest Group, Amansa Capital, Morgan Stanley and Hero Ventures.



## COMPANY BACKGROUND

Bank was incorporated on July 24, 2006, registered as a non-banking finance company (“NBFC”) on March 4, 2008, and was awarded non-banking finance company-microfinance institution (“NBFC-MFI”) status on September 5, 2013. Bank started operating as a Small Finance Bank with effect from March 28, 2018 and became a Scheduled Commercial Bank on July 16, 2019.

Bank’s primary secured loan products are secured business loans, micro loans against property (“Micro LAP”), MSME loans, affordable housing loans, term loans to NBFC, loans against fixed deposits, two-wheeler loans and gold loans. Bank’ primary unsecured loan products are 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 (“JLG”) model). Bank’s gross advances has increased from ₹118,389.82 million as at March 31, 2021 to ₹180,007.41 million as at March 31, 2023, representing a CAGR of 23.31%, and further increased to ₹213,471.30 million as at September 30, 2023, an increase of 18.59% . Since becoming a Small Finance Bank, it have focused on increasing its secured gross advances to diversify its advances, and within unsecured advances, bank have focused on growing its agricultural and allied loans. Bank’s gross secured advances has increased from ₹50,760.00 million as at March 31, 2021 to ₹99,047.54 million as at March 31, 2023, representing a CAGR of 39.69%, and further increased to ₹122,577.38 million as at September 30, 2023, an increase of 23.76%, and its gross advances of agricultural and allied loans has increased from ₹15,510.70 million as at March 31, 2021 to ₹30,944.43 million as at March 31, 2023, representing a CAGR of 41.25% and further increased to ₹36,141.39 million as at September 30, 2023, an increase of 16.79%. Bank’s secured gross advances as a percentage of total gross advances has increased from 42.87% as at March 31, 2021 to 57.42% as at September 30, 2023. Bank’s agricultural and allied loans as a percentage of its gross advances has increased from 13.10% as at March 31, 2021 to 16.93% as at September 30, 2023.

Bank have been able to leverage the strength of the “Jana” brand to rapidly grow its deposit portfolio since bank commenced operations as a Small Finance Bank in March 2018. As an NBFC-MFI, bank was not permitted to accept deposits as per applicable laws in India. Bank’s deposits have increased from ₹123,162.58 million as at March 31, 2021 to ₹163,340.16 million as at March 31, 2023, representing a CAGR of 15.16%, and further increased to ₹189,367.24 million as at September 30, 2023, an increase of 15.93%. jana Small finance Bank was among the top four Small Finance Banks in India in terms of deposit size as at September 30, 2023. Bank have placed a strong emphasis on increasing its Retail Deposits (which comprises single Rupee term deposits of less than ₹20.00 million (“Retail Term Deposits”) plus CASA), as they have lower rates of interest compared to Bulk Deposits (single Rupee term deposits of ₹20.00 million or more) and are more likely to stay deposited with bank over a longer period compared to Bulk Deposits. Jana Small finance Bank was amongst the top five Small Finance Banks in term of share of Retail Deposits (comprising CASA and Retail Term Deposits) as a percentage of total deposits among all Small Finance Banks as at March 31, 2023.

Bank is also a corporate agent for third-party life insurance products, general (non-life) insurance products and health insurance products, including COVID-19 insurance products. Bank also offer Point of Sales (“POS”) terminals and payment gateway services through its merchant acquiring partners. In addition to delivering its products and services through banking outlets and ATMs, bank deliver its products and services through business correspondents, ATM cum debit cards, mobile banking platforms, internet banking portals and SMS alerts. In line with its vision, bank have been upgrading its technology platforms. A significant proportion of bank’s sourcing and collections across assets and liabilities are digitalised using mobile phones / tablets, with an emphasis on straight through processing while incorporating fraud and regulatory checks. PAN validation, e-KYC, credit bureau checks supporting multiple bureaus, and AML checks are fully automated using an integration layer. Bank’s digital liability account opening platform, DIGIGEN ([www.janadigi.com](http://www.janadigi.com)), provides a fully digital self on-boarding platform for opening accounts. DIGIGEN, coupled with its video-KYC platform enables digital only deposit accounts to be opened by bank’s customers. Bank have also invested in various technologies, infrastructure, and tools to drive data analytics and to convert its data into impactful insights on the behavioural trends of its customers and prospective customers.



**INVESTMENT RATIONALE**

<p><i>Integrated risk and governance framework</i></p>	<p>Bank adopt an integrated risk management approach. Bank’s integrated risk management framework lays down its core principles in identifying, measuring, assessing, and managing the key risks. Bank have put in place detailed risk management policies and a governance structure for each type of key risks, including credit, operations, liquidity, interest rate, market, cyber and information security, and reputational risks. Bank’s risk governance structure is clearly defined for each key risk. Bank’s risk-focused culture involves reward programmes that incorporate risk-related objectives, and learning programmes to promote integrated risk management. bank have designed, implemented, and maintained an effective risk programme and follow risk-based oversight. Each of bank’s risk-related management committees is responsible for overseeing the management of risks on a regular basis and report to the Board. Bank have an independent system that is used to evaluate the effectiveness of its risk management policies. bank entrench risk ownership in every business function and every department has its own functional operational risk committee. Each of bank’s Branches, customer service points, central processing units, and functional departments is responsible for the performance of its business operations and the management of the risks it takes within the established risk framework.</p>
<p><i>Bank is a digitalised bank and the majority of its services are available in digital form to customers</i></p>	<p>Jana Small finance bank is a digitalised bank. Its core banking is supported by integrated multi-channel operations. Bank leverage technology to identify potential opportunities, deliver products and services to its target customers, and improve customer satisfaction and business efficiency. Bank’s back-end operations, including the core banking system, human resources, customer relationship management systems, anti-money laundering check system, lead management system, collection and disbursement systems, as well as treasury operations, are automated using robotic process automation technology and other automation processes, which has helped improve the internal turnaround time. Bank’s new products are designed with application programming interface (API) technology to increase operating efficiencies, deliver better quality services, and to allow bank to integrate with the larger ecosystem leveraging on the API framework.</p>
<p><i>Customer-centric organization with more than 16 years’ experience in serving underbanked and underserved customers</i></p>	<p>Company have more than 16 years’ experience in serving underbanked and underserved customers and most of its asset products are catered for such customers and the MSME segment. Company provide banking services at customers’ doorsteps in urban and rural geographies, thereby driving financial inclusion for the underbanked and underserved customer segment. An example of company’s customer-centric approach is the providing of multiple loan and liability banking options to underbanked and underserved customers to cater to their life stage requirements. Company provide them with not only unsecured group loans and agricultural and allied loans, but also individual loans for various purposes and micro business loans as well as current accounts, savings accounts, and term deposits. Since company’s customers prefer a single source for multiple financial services, company’s business model is centred on building a ‘one-stop shop’ to cater its customers’ different financial needs. As company’s customers have graduated from unsecured loans, company have expanded its asset products to cater to them as well as to new customers.</p>



## OBJECTS OF OFFER

### Offer for Sale

Each of the Selling Shareholders will be entitled to their respective portion of the proceeds from the Offer for Sale in proportion of the Equity Shares offered by the respective Selling Shareholders as part of the Offer for Sale.

### Fresh Issue

In terms of the SFB Licensing Guidelines, Bank is required to list its Equity Shares on the Stock Exchanges within a period of three years from reaching a net worth of ₹5,000 million.

## RISKS

There have been irregularities in certain regulatory filings made by company with the RoC under applicable law and delays in submitting regulatory filings with the RBI. Further, certain of company's statutory and regulatory records are untraceable. Company cannot assure you that no legal proceedings or regulatory actions will be initiated against Bank in the future in relation to such missing corporate records or irregular filings.

Source:RHP

## INDUSTRY OVERVIEW

### Overview of the Indian Banking Industry

The banking industry is regulated by the Reserve Bank of India (RBI), which is the central bank of India established on April 1, 1935 under the Reserve Bank of India Act, 1934. As at March 31, 2023, the Indian banking system consisted of 12 public sector banks and 21 private sector banks, in addition to cooperative credit institutions (Source: RBI Annual Report 2022-23). The number of registered insured banks as at March 31, 2023 stood at 2,027, comprising 140 commercial banks including 43 regional rural banks (RRBs), 2 local area banks (LABs), 6 payment banks (PBs) and 12 small finance banks (SFBs) and 1,887 co-operative banks – the latter consisting of 33 state cooperative banks, 352 district central cooperative banks and 1,502 urban cooperative banks (UCBs).

Key advantages & challenges for a NBFC upon conversion to SFB Advantages

- SFBs target the low-income segment and offer them differentiated products. Unlike the NBFCs which expand horizontally with a special focus product, SFBs expand vertically and horizontally which enables them to have a good mix of medium and low value customers. Further, with major focus on rural and microfinance borrowers, which have a low credit penetration and less migration from one player to another, small finance banks can build loyal customer relationships. Along with this, there is less competition for banking services in rural as compared to urban areas, which presents SFBs with significant growth opportunities in rural areas
- Akin to commercial banks, SFBs can undertake all banking activities, including lending and taking deposits. Access to deposits, resulting in lower cost of funds, allows small finance banks to compete with other players in the underpenetrated regions
- Low cost of client acquisition over the long term due to wider reach, customer-centric approach and technology usage

Disadvantages

- The COVID-19 crisis has reiterated the underlying risks of the business models of most SFBs – 'high touch' operations, personalised doorstep services, including centre meetings, driven predominantly by cash collection processes for the microfinance segment of customers.
- Extending 75.0% of Adjusted Net Bank Credit (ANBC) to sectors eligible for classification as priority sector lending (PSL). NBFCs do not have any such targets.
- Maintaining at least 25.0% of their banking outlets in unbanked rural areas.
- At least 50.0% of loan portfolio must comprise loans and advances of up to Rs. 2.5 million while no such regulation is imposed on NBFCs.
- Maintain minimum Capital Adequacy Ratio (CAR) of 15.0% of its risk-weighted assets (RWA).
- While SFBs have to maintain minimum 3.5% of CRR and 18% of SLR, NBFCs do not have to maintain any CRR and SLR.
- Building a liability profile and venturing into new products will be a challenge. Growth drivers for SFBs



**Consolidated Financials**

(Rs in Mn)

<b>Financials (Mn)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>H1FY24</b>
Total Income	14861.62	17256.13	22848.85	13392.61
Total Expenses	10473.10	11388.21	12845.11	7831.59
Pre Provision Profit	4388.52	5867.92	10003.74	5561.02
Provisions	3665.92	5693.21	7444.03	3428.84
PBT	722.60	174.71	2559.71	2132.18
Tax	0.00	0.00	0.00	0.00
PAT	722.60	174.71	2559.71	2132.18
Eq Cap	507.27	514.12	549.79	735.26
Net Worth	11,148.13	12,006.94	17,972.56	25,689.65
EPS	14.25	3.44	47.47	33.26
Book value	219.77	233.54	286.89	346.42
NIM %	8.36	7.32	7.73	7.78
Credit cost	3.41	4.59	4.84	1.69
ROE%	6.51	1.53	16.78	18.78
ROA%	0.45	0.09	1.13	1.6
Credit to deposit ratio	94.18	96.089	108.79	110.94

(Source: RHP)

**Peer Comparison**

<b>Company Name</b>	<b>Face value</b>	<b>EPS</b>	<b>NAV</b>	<b>P/E</b>	<b>P/B</b>	<b>RONW %</b>
<i>Jana Small Finance Bank Limited</i>	<b>10</b>	<b>42.64</b>	<b>323.23</b>	--	--	<b>14.40</b>
<b>Peers</b>						
AU Small Finance Bank Limited	10	21.74	164.64	35.47	4.71	13.00
Suryoday Small Finance Bank Limited	10	7.32	149.28	24.21	1.19	4.90
Credit Access Grameen Limited	10	52.04	326.89	32.66	5.20	16.18
Spandana Sphoorty Financial Limited	10	1.74	436.58	665.52	2.65	0.40
Bandhan Bank Limited	10	13.62	121.58	16.87	1.89	11.21
Ujjivan Small Finance Bank Limited	10	5.87	21.27	10.15	2.81	26.45
Equitas Small Finance Bank Limited	10	4.67	46.44	24.21	2.46	11.21
Fusion Micro Finance Limited	10	43.13	230.74	14.68	2.75	16.67
Utkarsh Small Finance Bank Limited	10	4.51	22.33	13.51	2.73	20.22

(Source: RHP)





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