Jana Small Finance Bank

02 May 2024

Takeaways from results and analyst interactions

COMPANY UPDATE

Sector: Banks | **Rating: NR**
CMP: Rs 600 | **Target Price: NA**

Stock Info

Sensex/Nifty	74,482/22,604
Bloomberg	JSFB IN
Equity shares	105mn
52-wk High/Low	Rs 662/365
Face value	10
M-Cap	Rs 67bn/ USD 0.8bn
3-m Avg volume	USD 6mn

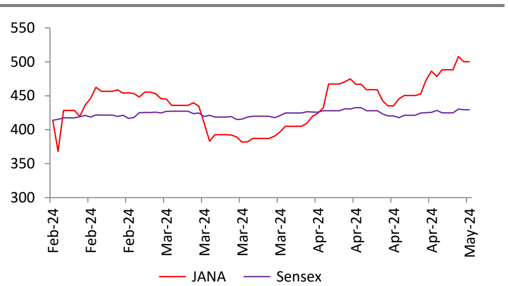
Financial Snapshot (Rs bn)

Y/E March	FY22	FY23	FY24
NII	14	17	21
PPP	6	10	12
PAT	0	3	7
EPS (Rs)	3	43	64
EPS Gr. (%)	(76.2)	1,229.9	50.1
BV/Sh (Rs)	236	333	342
Adj. BV/Sh (Rs)	211	312	339
Ratios			
NIM (%)	7.3	7.4	7.5
C/I ratio (%)	66.0	56.2	57.4
RoA (%)	0.1	1.1	2.3
RoE (%)	1.5	17.1	24.9
Valuations			
P/E (x)	187.1	14.1	9.4
P/BV (x)	2.5	1.8	1.8
P/Adj. BV	2.8	1.9	1.8
Div. Yield (%)	-	-	-

Shareholding pattern (%)

	Feb'24	Mar'24
Promoter	22.5	22.5
–Pledged	-	-
FII	30.2	29.1
DII	15.7	17.7
Others	54.0	30.7

Stock Performance



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We met the management of Jana SFB during its 4QFY24 earnings analyst meet. Key takeaways from the event were: 1) Guidance for next 2-3 years: Advances and deposit CAGR of 20% vs 25% CAGR FY21-24; PPOP CAGR of 20-25% vs 40% CAGR FY21-24 (on low base); PAT growth of 30-40% vs 110% CAGR FY21-24; Opex growth of 8-10% vs 15% CAGR FY21-24; RoA of 1.8-2% (ex-future DTA recognition) vs 1.8% in FY24 (ex DTA recognition); RoA of 2.5% (including DTA recognition) vs 2.4% in FY24 (including DTA recognition); RoE of 19-21% (ex-future DTA recognition) vs 20.7% (ex DTA recognition); 2) Bank aspires to be one stop shop for customer's financial needs with home loan being the anchor product; 3) Key tenet of the bank's strategy is to focus on the secured book and grow it such that secured book share increases from current 60% to ~75-80% in 3 years, with the balance growth being in unsecured portfolio. 4) Management reiterated that they would prefer steady RoE across cycles rather than introduce volatility to earnings due to high risk / high return unsecured portfolio. 5) PAT CAGR of 110% in FY21-24 was on a low base. The bank is targeting PAT CAGR of 30-40% in near term. Yield compression from higher share of secured book will be offset by funding cost reduction due to expected improvements in CASA ratio from 20% to 30%, reduced opex and lower credit costs due to higher secured mix. This should enable the bank to deliver RoA (ex DTA) of 1.8-2.0% and RoE of ~20% in near term 6) No capital raise plans for next three years. 7) The bank would need one more year to meet the criteria set for transitioning from SFB to universal bank. It will most likely apply for universal banking license around June 2025. Jana SFB (NOT RATED) trades at FY24 P/B of 1.7x for FY24 RoA of 1.8% (ex DTA benefit) and FY25 guided RoA of ~1.8-2.0%.

Key takeaways from the 4QFY24 results were: (1) Gross Advances growth of 5% qoq, 25% yoy was funded by deposit growth of 9% qoq, 28% yoy. Secured advances share was 60% (2) NIMs to be largely stable in FY25 with cost of deposits at 7.8% (+80bps yoy) being largely stabilized. (3) FY24 CIR increased to 57.4% (vs 56.2%) mainly due to higher marketing spends, branch relocation costs, hiring of more RMs and IPO related expenses. (4) The bank delivered 4QFY24 PAT of Rs 3.2bn (+139% qoq, 24% qoq ex-DTA benefit) which was also supported by utilization of DTA of Rs 1.55Bn with the bank still having Rs 8.01Bn in DTA, available to be utilized till Mar'2027 (5) The bank has satisfactorily addressed all deficiencies pointed in the C-site audit done by RBI in 2021. The regulator is expected to be back for audit in 2024.

Advances growth led by higher focus on secured segments: 4QFY24 gross advances growth of 5% qoq, 25% yoy, was led by affordable housing (+11% qoq), micro LAP (+7% qoq) and other secured loans (+12.5% qoq). Within unsecured advances, while individual loans, group loans and agriculture loans increased by 3-5% qoq, the BC book which mainly consists of Agri and group loans remained largely flat qoq. On the other hand, the share of term loans to NBFCs declined by 12% qoq and is likely to slow-down further as it continues to focus on its core retail segments. Gold loan book declined by 21% (3 yr CAGR) due to lower repayments in COVID. However, the book has grown on yoy basis in FY24 to ~3bn and is likely to ramp up to Rs 10bn, in FY25. The bank maintains strict quality control on collateral as it has a policy to penalize the valuer if the valuation of gold, at any stage, differs from the appraised value. **Over the next 2-3 yrs, the bank targets advances CAGR of 20% vs 25% CAGR in the last 3 years. Secured mix at 60% was stable qoq and improved +300bps yoy with the bank targeting ~75-80% share in next 2-3 years**.

Strategy is to create a rural focused player with home loan as the Anchor product to cross sell other products: The bank has adopted a 3-pronged strategy**: (1)** Firstly, the bank has made affordable HL as the anchor product to cross sell multiple products to same customer. Given product tenure is 15-20 years, the bank hopes to retain relationship with the customer and their future generations. The bank aims to be the one-stop solution for all the financial needs of its customers. On average, every customer that has taken HL/LAP has 3.6 products (including liability products) with the bank. Given that the bank has access to customer's track record, it is able to provide cross collateralized 2W loans with almost 100% LTV and pre-approved business loans upto Rs 5Lacs, which are cross linked to original home loan. **(2)** Secondly, post Covid, the bank de-tuned urban MFI and upgraded good customers from urban centres to individual loan customers. It further focused on scaling up URCs (unbanked rural centres) with the share of URCs in total outlets increasing from 28% in FY21 to 37% in FY24. Bank's URCs are the most profitable centres that breakeven in a few months post launch and primarily focus on group loans in the agri model. They helped the bank move away from urban MFI to rural MFI. **(3)** Thirdly, the bank's focus remains on building a secured portfolio. 70% of the bank's portfolio is time tested as 52% of the portfolio is to existing customers who have completed one cycle with the bank and balance 20% sourced via BC's who have service guarantee. During Covid, it was observed that collection efficiency/asset quality of the BC book was better than bank sourced book. BCs are always from the local area with strong local knowledge and connections. **Management further highlighted that its focus remains to be amongst the top 3 players in the existing business segments and has no plans to launch new segments like credit cards, 4W etc in the near future, in contrast to that done by other SFB's in the industry.**

Deposit mobilization to be led by branch optimization and productivity: 4QFY24 deposit growth of 9% qoq, 38% yoy was higher than advances growth of 5% qoq, 25% yoy leading to C-D ratio declining to 102.4% (-328bps qoq, -633bps yoy). Deposit growth was led by CASA growth of 14% qoq and bulk deposit growth of 11% qoq. This led to CASA ratio increasing by ~100bps qoq to 19.7%. Term deposit growth was 7% qoq, with retail TD growth being muted at 4% qoq. While term deposits constitute ~80% of total deposits, the bank highlighted that 96% of bulk deposits are non-callable in nature and 91% of bulk and 98% of retail deposits have 1 yr or more maturity. Bank's average deposit ticket size is comparable to that of leading SCBs. **Over the next 2-3 yrs, the bank targets deposit CAGR of ~20% vs 25% CAGR in the last 3 yrs. Deposit growth will be aided by (i) the bank's strategy to convert legacy urban MFI branches to liability focused branches by relocating them to more affluent areas with potential to garner higher deposits** (**39 branches relocated in FY24, 209 in pipeline to done in next 2-3 years) (ii) nearly half the bank's branches have a vintage of 2 years, As branches mature from 1-3yrs to >4yr , CASA per branch can be expected to increase from Rs 30mn to Rs 190mn, total deposits per branch expected to increase from Rs 150Mn to Rs 1,150Mn. Over the near term, the bank expects CASA ratio to increase to 30% vs 20% Mar'24.**

NIMs and spreads largely stable on pass-through of higher rates: The bank was able to expand FY24 NIM to 8% (+20bps) despite 80bps rise in cost of funds due to (i) lower interest reversal on reducing NPAs (ii) improved portfolio mix as improving collection efficiency enabled the MFI team to do more cross sell on smaller ticket loans like AFHL and micro-LAP. Share of AFHL+ Micro LAP increased to 37% (~600bps yoy). Further, in FY24, the bank refinanced Rs 40bn of loans from DFIs (NABARD, SIDBI, NHB, MUDHRA) with long term borrowings between 5-10yrs at interest rates between 7-8% and which are exempt from SLR, CRR requirements. Refinancing also supports the bank in ALM management. **Further, the bank indicated that given the**

average deposit tenure is about 1.5yrs, the cost of deposits at 7.8% (+80bps yoy) has largely stabilized and the bank expects to have largely stable NIMs in FY25.

Opex growth to moderate due to higher branch productivity: In FY24, CIR increased to 57.4% (vs 56.2%) mainly due to higher marketing spends for liability sourcing given tight liquidity, branch relocation costs, hiring of more RMs and IPO related expenses. The bank has 808 banking outlets (20% are BC operated outlets). It added 17 new branches and relocated 39 branches to affluent areas with potential for higher deposits. There is further potential to relocate 209 branches over next 2-3 yrs. **Going forward, CIR to decline on increased branch productivity as nearly half the branches have a vintage of over 2 yrs. Over the next 3 yrs, the bank expects opex to increase by 8-10% vs 15% CAGR in FY21-24.**

Despite higher secured mix, RoA expected to inch up on lower opex and credit costs: In FY24, the bank delivered PAT of Rs 6.7bn (+161% yoy, 50% yoy ex-DTA benefit) which was also supported by utilization of DTA of Rs 1.55Bn, with Rs 0.44Bn towards unabsorbed depreciation and Rs 1.11Bn towards 1 year forward business. The bank still has balance amount of Rs 8.01Bn which is available to offset against profits till Mar'2027. Over the next 2-3 yrs, the bank guided for (i) PPOP CAGR of 20-25% vs 40% CAGR FY21-24 (on low base) (ii) PAT growth of 30-40% vs 110% CAGR FY21-24 (on a low base) (iii) RoA of 2.5% (including DTA) vs 2.4% in FY24 and 1.8-2% (ex future DTA recognition) vs 1.8% in FY24. The bank expects to RoA to inch up profile despite targeting secured loan mix of 75-80% (vs 60% Mar'24) as yield compression from higher share of secured book will be offset by funding cost reduction due to expected improvements in CASA ratio from 20% to 30%, reduced opex and lower credit costs due to higher secured mix. Management reiterated that they would prefer steady RoAs for the bank across cycles rather than introduce volatility to earnings due to high risk / high return unsecured portfolio.

Asset Quality continues to improve on adequate risk monitoring: Key asset quality metrics continue to show an improving trend with GNPA at 2.1% (-8bps qoq), NNPA at 0.6% (-15bps qoq), PCR at 73.7% (+580bps qoq) and restructured book declining to 0.4% of AUM vs 6-7% during COVID. 87.5% of restructured book is secured with LTV of 51%. 55% of the NNPA pool is secured with LTV of 52%. Zero bucket collection efficiency for Punjab, Haryana is at 99.5% as the bank had strategically pulled back disbursals in November from Rs 200-250mn per month to Rs 50mn and the entire team was made to focus on securing collections. 4QFY24 credit costs at 3% were largely stable qoq. FY24 credit costs declined to 3.3% (vs 5% yoy).

In terms of risk underwriting and monitoring, (i) Jana remains the only bank to introduce 2nd generation scorecards for credit filtering in 2W and housing loans (ii) The bank has an internal banking ombudsman which is headed by an ex-PSU bank retired officer (iii) The bank has an incident reporting group, headed by the CEO, wherein any system downtime of more than 15 mins during business hours and 30 mins during off-business hours gets escalated to the CEO and senior management team.

Exhibit 1: Quarterly performance

(INR, mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)
Net Advances	2,31,113	1,77,596	30%	2,19,640	5%
Deposits	2,25,712	1,63,340	38%	2,07,850	9%
NII	5,910	4,673	26%	5,485	8%
Other income	1,799	1,613	12%	1,395	29%
Operating income	**7,709**	**6,286**	**23%**	**6,880**	**12%**
Opex expense	4,289	3,479	23%	3,927	9%
PPOP	**3,419**	**2,807**	22%	**2,953**	16%
Provisions	1,754	1,997	-12%	1,606	9%
PBT	**1,665**	**810**	106%	**1,346**	24%
Tax	-1,552	-	NM	-	NM
PAT	**3,217**	**810**	297%	**1,346**	139%
Key Ratios (%)	**4QFY24**	**4QFY23**	**YoY (bps)**	**3QFY24**	**QoQ (bps)**
CASA Ratio	19.7%	20.2%	-51	18.8%	95
CD Ratio	102.4%	108.7%	-633	105.7%	-328
NIM (calculated)	7.7%	7.8%	-6	7.7%	1
Cost to Income	55.6%	55.3%	29	57.1%	-144
Credit costs	3.1%	4.7%	-160	3.0%	12
GNPA (%)	2.1%	3.6%	-149	2.2%	-8
NNPA (%)	0.6%	2.4%	-184	0.7%	-15
PCR (%)	73.7%	34.0%	3,969	67.9%	580
CAR	20.3%	15.6%	473	16.3%	403

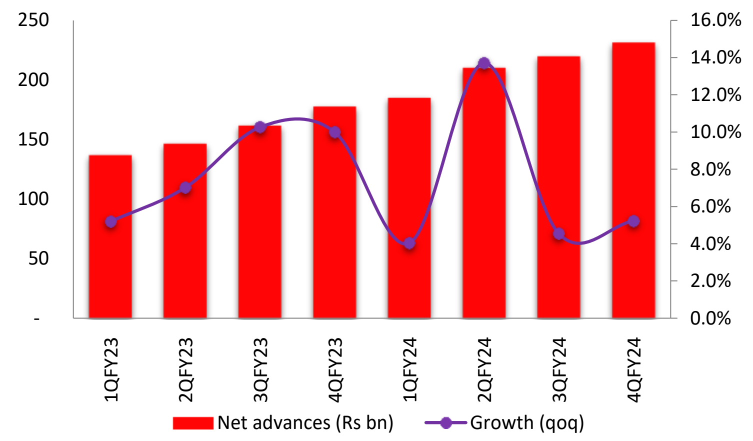
Source: Company, Systematix Institutional Research

Exhibit 2: DuPont analysis

Du Pont (% of average assets)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24
Net interest income	**7.6%**	**7.1%**	**7.7%**	**7.5%**	**7.5%**
Other income	2.6%	2.9%	2.4%	1.9%	2.3%
Total income	**10.2%**	**10.0%**	**10.1%**	**9.4%**	**9.8%**
Operating expenses	5.7%	5.8%	6.0%	5.4%	5.5%
PPOP	**4.6%**	**4.2%**	**4.2%**	**4.1%**	**4.4%**
Provisions	3.2%	2.8%	2.4%	2.2%	2.2%
PBT	**1.3%**	**1.4%**	**1.8%**	**1.8%**	**2.1%**
Tax	0.0%	0.0%	0.0%	0.0%	-2.1%
PAT (RoAA)	**1.3%**	**1.4%**	**1.8%**	**1.8%**	**4.1%**
Leverage	14	12	11	11	10
ROE	**18.5%**	**17.0%**	**19.6%**	**20.4%**	**40.9%**

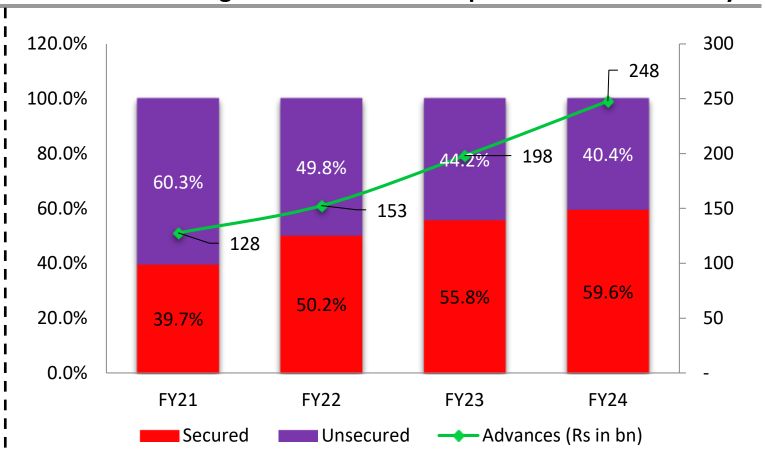
Source: Company, Systematix Institutional Research

Exhibit 3: Advances CAGR of ~20% in next 3 years vs 25% yoy in FY24



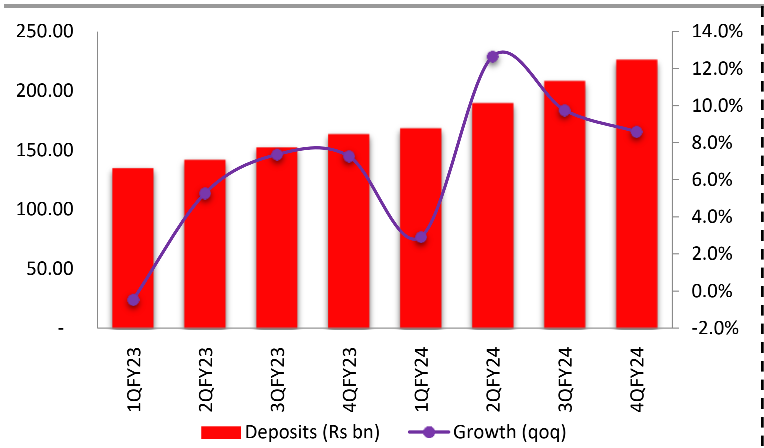
Source: Company, Systematix Institutional Research

Exhibit 4: Bank targets secured mix to improve to 75-80% in 2-3 yrs



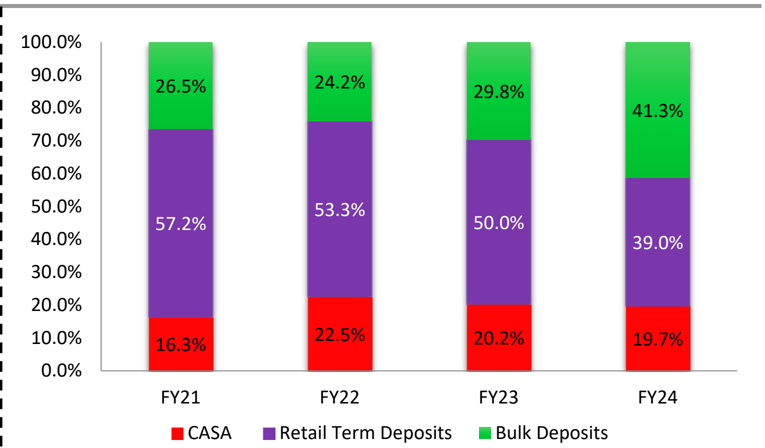
Source: Company, Systematix Institutional Research

Exhibit 5: Deposit CAGR of ~20% in next 3 years vs 38% yoy in FY24



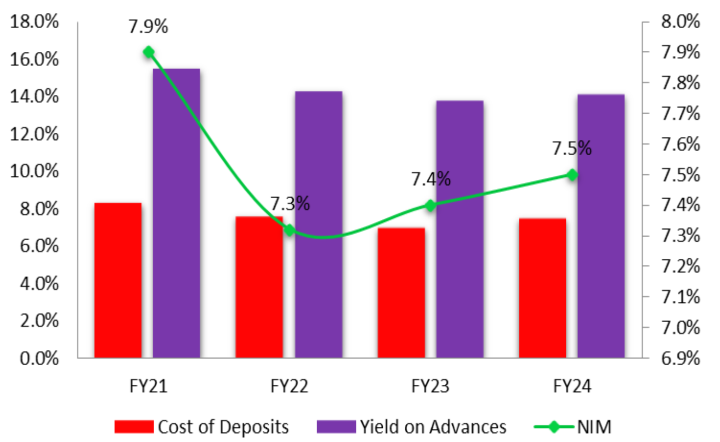
Source: Company, Systematix Institutional Research

Exhibit 6: CASA share to improve from 20% to 30% in next 3 yrs.



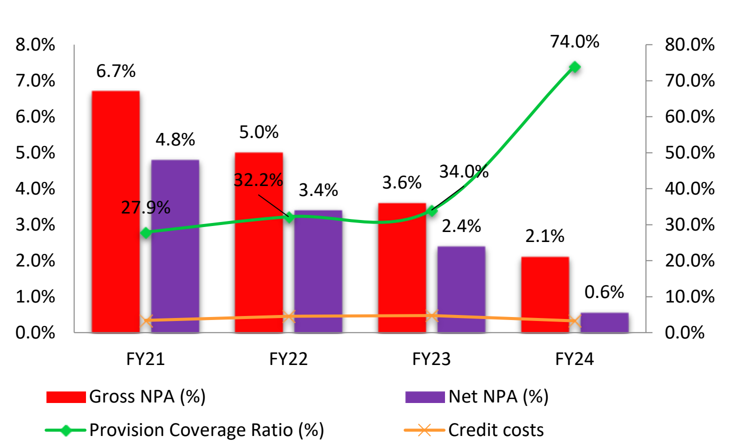
Source: Company, Systematix Institutional Research

Exhibit 7: Stable NIMs expected in FY25



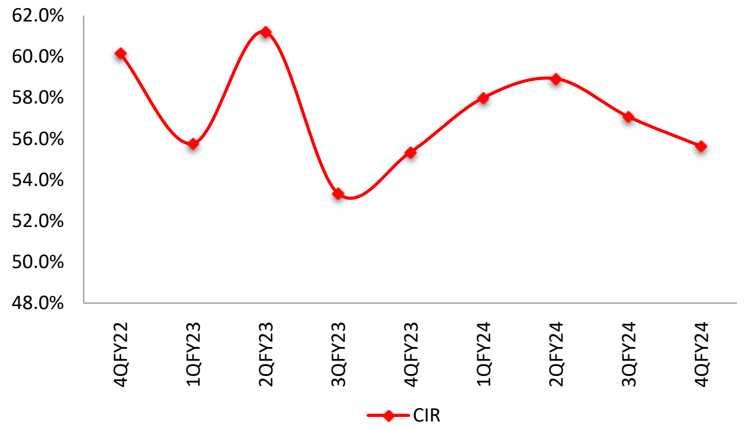
Source: Company, Systematix Institutional Research

Exhibit 8: Improving asset quality



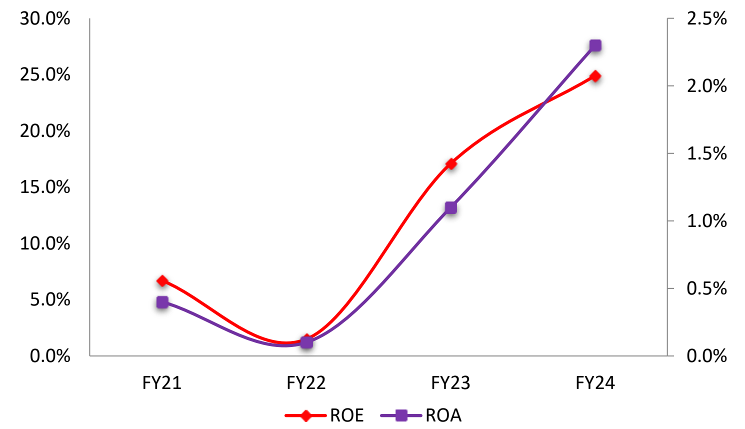
Source: Company, Systematix Institutional Research

Exhibit 9: CIR to decline further on increased branch productivity



Source: Company, Systematix Institutional Research

Exhibit 10: Return ratios to remain stable in near term



Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs bn)	FY21	FY22	FY23	FY24
Interest Income	25.0	27.3	30.8	40.1
Interest Expenses	12.3	13.4	14.1	18.9
Net Interest Income	**12.6**	**13.9**	**16.6**	**21.3**
Change (%)	24.9	10.0	19.4	28.1
Add: Other income	2.2	3.4	6.2	6.7
Net Income	**14.9**	**17.3**	**22.8**	**28.0**
Change (%)	2.9	16.1	32.4	22.5
Operating Expenses	10.5	11.4	12.8	16.0
Operating Profit	**4.4**	**5.9**	**10.0**	**11.9**
Change (%)	56.4	33.7	70.5	19.3
Provisions	3.7	5.7	7.4	6.8
PBT	**0.7**	**0.2**	**2.6**	**5.1**
Tax	-	-	-	(1.6)
PAT	**0.7**	**0.2**	**2.6**	**6.7**
Change (%)	139.8	(75.8)	1,365.1	161.6

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY21	FY22	FY23	FY24
Capital	2.1	2.2	3.5	1.2
Reserves & Surplus	9.0	9.8	14.5	34.6
Net Worth	**11.1**	**12.0**	**18.0**	**35.8**
Change (%)	6.8	7.7	49.7	99.0
Deposits	**123**	**135**	**163**	**226**
Change (%)	27.6	9.9	20.7	38.2
CASA Ratio (%)	16.3	22.5	20.2	19.7
Borrowings	**48**	**45**	**63**	**52**
Other Liabilities	8	9	12	13
Total Liabilities	**191**	**202**	**256**	**327**
Change (%)	34.9	5.8	27.0	27.6
Investments	47	51	52	67
Cash & Bank balance	23	15	21	21
Loans	**116**	**130**	**178**	**231**
Change (%)	16.5	12.1	36.5	30.1
Fixed Assets	2	2	1	1
Other Assets	3	4	4	7
Total Assets	**191**	**202**	**256**	**327**

Source: Company, Systematix Institutional Research

Dupont

YE: Mar (%)	FY21	FY22	FY23	FY24
Interest Income	15.0	13.9	13.4	13.8
Interest Expended	7.4	6.8	6.2	6.5
Net Interest Income	**7.6**	**7.1**	**7.2**	**7.3**
Other Income	1.3	1.7	2.7	2.3
Total Income	**8.9**	**8.8**	**10.0**	**9.6**
Operating Expenses	6.3	5.8	5.6	5.5
Operating Income	**2.6**	**3.0**	**4.4**	**4.1**
Provisions	2.2	2.9	3.2	2.3
PBT	**0.4**	**0.1**	**1.1**	**1.8**
Tax	-	-	-	(0.5)
PAT	**0.4**	**0.1**	**1.1**	**2.3**
Leverage	15	17	15	11
RoE	**6.7**	**1.5**	**17.1**	**24.9**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24
Spreads Analysis (%)				
Yield on Earning Assets	15.5	14.3	13.8	14.1
Cost of Funds	8.3	7.6	7.0	7.5
NIM	7.9	7.3	7.4	7.5
Profitability Ratios (%)				
Cost/Income	70.5	66.0	56.2	57.4
PPOP / Avg. assets	2.6	3.0	4.4	4.1
RoE	6.7	1.5	17.1	24.9
RoA	0.4	0.1	1.1	2.3
Asset Quality (%)				
GNPA (Rs bn)	8.6	7.6	7.1	4.9
NNPA (Rs bn)	6.2	5.1	4.7	1.3
GNPA	6.7	5.0	3.6	2.1
NNPA	4.8	3.4	2.4	0.6
PCR	27.9	32.2	34.0	73.7
Capitalisation (%)				
CAR	15.5	15.3	15.6	20.3
Tier I	11.7	11.8	13.0	19.0
Tier II	3.8	3.4	2.5	1.3
Average Leverage on Assets (x)	15.4	17.0	15.3	10.9
Valuations				
Book Value (Rs)	220	236	333	342
Adj. Book Value (Rs)	189	211	312	339
Price-BV (x)	2.7	2.5	1.8	1.8
Price-Adj. BV (x)	3.2	2.8	1.9	1.8
EPS (Rs)	13	3	43	64
EPS Growth (%)	128.1	(76.2)	1,229.9	50.1
Price-Earnings (x)	44.6	187.1	14.1	9.4

Source: Company, Systematix Institutional Research

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