

07th February 2024

Jana Small Finance Bank Ltd. – SUBSCRIBE

Investment Thesis

- Jana Small Finance Bank Ltd. (JSFB) is set to launch its initial public offering (IPO) on February 7th, 2024. The Issue size of the BLSE IPO is Rs. 570 crs comprising of OFS worth Rs. 108 crs and Fresh Issue for Rs. 462 crs. The proceeds from the fresh issue are to be utilized for the
 - Increasing business which is onward lending.
 - Augmenting Tier-I capital base to meet future capital requirements.
- JSFB is the fourth largest Small Finance Bank in terms of AUM and the fourth largest Small Finance Bank in terms of deposit size as of Sept 30, 2023. Incorporated on July 24, 2006, JSFB became a Scheduled Commercial Bank on July 16, 2019.
- Their 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. The 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).
- As of September 30, 2023, JSFB had 771 banking outlets, including 278 banking outlets in unbanked rural centers, in 22 states and two union territories.

Revenue from business

- JSFB has shown robust AUM growth to Rs. 23,029 crs including agriculture and allied lending of Rs. 3,614 crs which has nearly double from the AUM at the end of FY21 of Rs. 12,770 crs.

Particulars	FY21	FY22	FY23	H1FY24
AUM (Rs. in Crs)	12,770.5	15,347.3	20,101.8	23,029.6
NNPA (%)	5.3	4.0	2.6	0.9
NII (Rs. in crs)	1,263.2	1,389.8	1,660.0	987.6
NIM (%)	8.4	7.3	7.7	7.8
Adj. PAT (Rs. in crs)	72.3	17.5	255.9	213.2
RoA%	0.5	0.1	1.1	1.6
RoE (%)	6.5	1.5	16.8	19.6

- The NII for H1FY24 was Rs. 987.6 crs up 31.3% against Rs. 751.9 crs for the same period last year. From FY21 – FY23 the NII has risen from Rs. 1,263.2 crs to Rs. 1,660.0 crs aided by healthy loan growth and stable NIM.
- Management of JSFB has significantly improved the strength of the Loan book by improving the asset where the NNPA at the of H1FY24 stood at 0.9% down from 2.6% in FY23 and 5.3% in FY21. This was done by increasing the PCR to 64.9% in H1FY24 from 34.0% in FY23

IPO Details

Issue Open Date	07 February 2024
Issue Close Date	09 February 2024
Price Band (Rs.)	Rs. 393 – Rs. 414
Issue Size*	Rs. 570.0 crs
Issue Size (Shares)	1.37 crs
Market Lot	36 Shares
Listing Exchanges	NSE / BSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	Rs. 462 crs
Issue Type	Book Building
Book Running Lead Manager	Axis Capital ICICI Securities SBI Capital
Issue structure	QIB: 50% Non-Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	13 February 2024
Issue Listing Date	14 February 2024

* At highest price band

- Focus on control the cost of fund and high yield products has enabled JSFB to materially improve the RoA which stood at 0.5% in FY21 to 1.6% in H1FY24.

Key Business Highlights

- Tech-Driven Banking:** JSFB is digitized bank which delivers its core services through integrated channels, optimizing technology for customer acquisition, and product design. Its automated back end facilitates swift processing and seamless integration within the broader ecosystem. Mobile and internet banking enable comprehensive transactions, including loan disbursements, via cashless solutions.
- DIGIGEN Drives Doorstep Banking:** 16-year veteran in inclusive banking, JSFB is a customer-centric bank that tailors offerings to underbanked & MSME segments. Its DIGIGEN platform empowers remote account opening via video-KYC, driving financial inclusion across urban & rural geographies. Committed to customer service, it prioritizes acquisition & retention through defined service standards & grievance redressal protocols.
- Diverse Deposits Drive Growth:** Leveraging the "Jana" brand, JSFB boasts rapid deposit growth since 2018. Diverse offerings (current, savings, recurring, term) cater to various segments, while competitive rates & focus on Retail Deposits (lower cost, longer tenure) drive a stable funding base.
- Experience Driven Excellence:** The management of JSFB is headed by Ajay Kanwal, who is Seasoned CEO (33+ years in finance) having handled major roles in diverse banks like SCB, SBI, Citibank. The policy decisions are predominantly driven by data analytics, which are presented in various internal committees leading to data-led decision making.
- Holistic Risk Mitigation:** JSFB boasts a robust integrated risk framework, identifying, measuring, and mitigating credit, operational, liquidity, and other key risks. Detailed policies and governance structures ensure effective management, while risk-based oversight and ownership at all levels foster a strong risk culture. Independent evaluations guarantee framework effectiveness.

Valuation

At the upper price band, the IPO of JSFB is priced at PB of 1.4x Sept – 23. When compared to its listed peers in the category the average PB is 2.5x implying there is significant undervaluation. Given the pedigree of the management, the improvement in the operations, strong brand, and tech driven business JSFB has potential to create long term wealth.

Considering the above we assign a "SUBSCRIBE" rating to the IPO of JSFB. Investors with a long-term horizon can apply for the IPO.

Risk & Concern

- Subject to Interest Rate Risk.
- Increased Competition.
- Face Asset Liability Mismatch.
- Disruption or failures in IT systems could adversely affect business.

Graphs & Charts

Figure 1: AUM growth (Rs. in Crs)

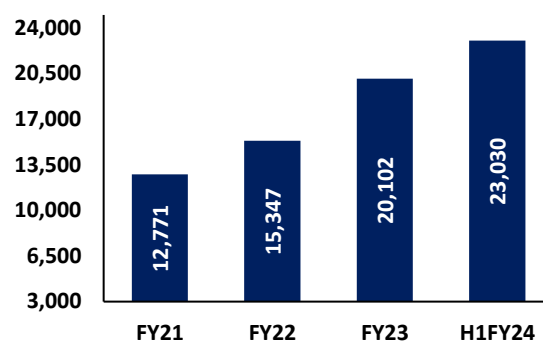


Figure 2: NNPA Trend

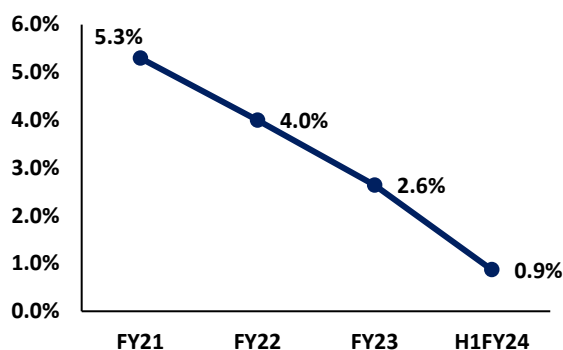


Figure 3: RoA Trend

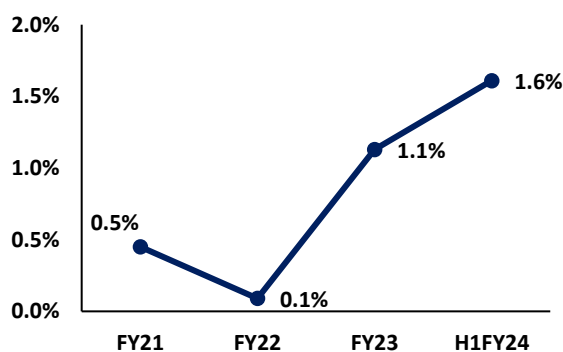
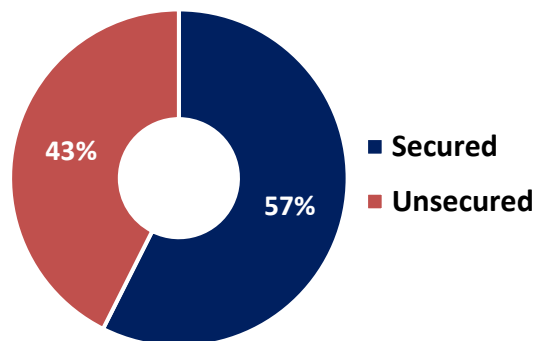


Figure 4: AUM Composition



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