

Issue Highlights

Industry	Bank
Offer for sale (Shares)	2,608,629
Fresh Issue (Shares)	11,159,420
Net Offer to the Public	13,768,049
Issue Size (Rs. Cr.)	541-570
Price Band (Rs.)	393-414
Offer Date	7-Feb-24
Close Date	9-Feb-24
Face Value	10
Lot Size	36 Shares

Issue Composition

	In shares
Total Issue for Sale	13,768,049
QIB	6,884,025
NIB	2,065,207
Retail	4,818,817

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	25.23%	22.54%
QIB	74.77%	70.88%
NIB	0.00%	1.97%
Retail	0.00%	4.61%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The Bank proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting the Bank's Tier - 1 capital base to meet the Bank's future capital requirements. Further, the proceeds from the Fresh Issue will also be used towards meeting the expenses in relation to the Offer. The Bank expects to receive the benefits of listing the Equity Shares on the Stock Exchanges.

Book Running Lead Manager

- Axis Capital Limited
- ICICI Securities Limited
- SBI Capital Markets Limited

Name of the registrar

- Kfin Technologies Limited

About the company

Incorporated in July 2006, Jana Small Finance Bank Limited is a non-banking finance company primarily engaged in providing MSME loans, affordable housing loans, term loans to NBFC, loans against fixed deposits, two-wheeler loans and gold loans. Jana SFB offers various unsecured loan products, including individual and micro business loans, agricultural and allied loans, and group loans. The bank classifies loans into three categories individual loans for home improvement/repair, individual loans for school fees, and individual personal loans for debt consolidation, family functions, incidental expenses, and business purposes. The bank provides digital products, services, and platforms, such as mobile and internet banking for both retail and corporate clients. Between March 31, 2021 and March 31, 2023, the bank's gross secured advances increased from Rs. 5076 crore to Rs 9904.75 crore, representing a compound annual growth rate (CAGR) of 39.69%. As of March 31, 2023, Jana SFB had 754 banking outlets across 22 states and two union territories, including 272 in unbanked rural centers. This pan-India presence has helped the bank to reduce its concentration risk. The bank has provided services to almost 12 million customers since 2008. As of March 31, 2023, there are 0.46 crore active customers. In the last three fiscal years, the bank has added 0.09 crore, 0.05 crore and 0.01 crore new customers, respectively.

Strength

A digitalised bank and the majority of its services are available in digital form to customers: Jana Small Finance Bank embraces technology to provide modern banking experiences. The bank seamlessly connects various channels through an integrated core banking system. By leveraging powerful technology, it targets specific customers with relevant products and services, ultimately enhancing customer satisfaction and streamlining business operations. Automation is at the heart of its efficiency. Back-end processes, like human resources, core banking, and customer management, are automated using robotic technology and other tools, leading to faster internal turnaround times. Innovation drives its products and services. The bank designs new offerings with open-source technology, allowing them to connect with a broader ecosystem. Customers enjoy a variety of digital platforms, including mobile and internet banking for both personal and business needs.

Integrated risk and governance framework: Jana Small Finance Bank prioritizes security with a unified approach to managing risk. Its comprehensive framework outlines clear principles for actively identifying, measuring, and mitigating potential threats. Detailed policies and robust governance structures are in place for various risks, covering credit, operations, liquidity, interest rates, market exposure, cyber threats, and even reputational concerns. Each risk has a well-defined oversight structure for clear accountability. Promoting a risk-aware culture, Jana offers reward programs tied to risk management goals and educational initiatives to foster integrated risk understanding. The bank takes a proactive stance with a well-designed and implemented risk program that utilizes risk-based oversight. Regular evaluations by dedicated risk management committees ensure ongoing monitoring and reporting directly to the Board. Finally, an independent evaluation system provides an objective assessment of the effectiveness of their risk management policies, guaranteeing continuous improvement. In essence, Jana Small Finance Bank prioritizes a proactive and comprehensive approach to risk management, creating a secure and stable environment for both the bank and its customers.

Customer-centric organization with more than 16 years' experience in serving underbanked and underserved customers: For more than 16 years, Jana Small Finance Bank has been dedicated to serving underbanked and underserved communities, including the MSME segment. The bank believes in bringing banking services directly to its customers' doorsteps, regardless of location, to help drive financial inclusion. The bank offers a variety of loan products to cater to diverse needs, including unsecured group loans, agricultural and allied loans, individual loans for various purposes, and micro business loans. Additionally, the bank provides current accounts, savings accounts, and term deposits. Recognizing its customers' preference for a single source for its financial needs, Jana Small Finance Bank has adopted a "one-stop shop" approach. This business model ensures its customers have convenient access to a wide range of financial services under one roof.

Pan-India presence with strong brand recognition: As of September 30, 2023, Jana Small Finance Bank boasts a wide network of 771 banking outlets, with 278 situated in unbanked rural areas across 22 states and 2 union territories. Since 2008, Jana Small Finance Bank has empowered nearly 1.2 crore customers, with 0.48 crore actively banking with them as of September 30, 2023. This demonstrates its commitment to financial inclusion and customer growth. Customer acquisition is on the rise, with the bank adding 0.03 crore, 0.09 crore, 0.05 crore, and 0.01 crore new customers in the half year ended September 30, 2023 and in Fiscals 2023, 2022, and 2021, respectively. Launched in September 2020, the "Jama Karo, Jana Karo" campaign aimed to connect with a wide range of customers and potential customers across various segments. This innovative campaign marked the bank's first above-the-line branding effort in multiple regional languages (Hindi, Tamil, Kannada, Marathi, and Bengali) to resonate with diverse audiences. By fostering trust, the campaign aimed to expand the bank's Retail Deposit business, offering convenient saving options to a wider population.

Fast growing Retail Deposits base and diversified deposit franchise: Jana Small Finance Bank, established in March 2018, capitalizes on the established reputation of the "Jana" brand to accelerate its deposit portfolio. To cater to various customer segments, Jana offers a wide range of deposit products including current accounts, savings accounts, recurring deposits, and term deposits. Its term deposits are flexible, with various interest payment options and competitive rates. The bank also caters to senior citizens with attractive interest rates. Deposits have witnessed significant growth: it has grown Rs. 12,316.26 crore in March 2021 to Rs. 16,334.02 crore in March 2023 (CAGR of 15.16%). A further jump to Rs. 18,936.72 crore by September 2023 (increase of 15.93%). This positions Jana among the top four Small Finance Banks in India in terms of deposit size as of September 30, 2023.

Proven execution ability: Jana Small Finance Bank has a strong track record of growing its deposit base. Its deposits have ballooned from zero when it began operating as a Small Finance Bank in March 2018 to Rs 18,936.72 crore as of September 30, 2023. Its gross advances have also grown significantly, from Rs 11,838.98 crore as of March 31, 2021 to Rs 18,000.74 crore as of March 31, 2023, representing a CAGR of 23.31%. The bank further increased to Rs 21,347.13 crore as of September 30, 2023, an increase of 18.59%. In Fiscal 2018, the bank launched gold loans and MSME loans with revised credit and collateral requirements. In Fiscal 2019, it launched affordable housing loans, secured business loans, and loans against fixed deposits. In Fiscal 2021, it launched two-wheeler loans. The bank's gross secured advances have grown from Rs 5,076 crore as of March 31, 2021 to Rs 9,904.75 crore as of March 31, 2023, representing a CAGR of 39.69%. The bank further increased to Rs 12,257.73 as of September 30, 2023, an increase of 23.76%. The proportion of the bank's gross secured advances has increased from 42.87% as of March 31, 2021 to 57.42% as of September 30, 2023.

Strategy

Focus on accelerating secured loans book with the purpose of meeting customers' needs and diversifying lending Book: The bank's secured loan portfolio includes affordable housing loans, secured business loans, gold loans, MSME loans, and two-wheeler loans. Gross secured advances have grown from Rs. 5076 crore as at March 31, 2021 to Rs. 9904.75 crore as at March 31, 2023,

representing a CAGR of 39.69%, and further increased to Rs. 12257.73 crore as at September 30, 2023, an increase of 23.76%. The proportion of gross secured advances has increased from 42.87% as at March 31, 2021 to 57.42% as at September 30, 2023. It plans to further accelerate its gross secured advances by: (i) offering multiple products to existing customers including evaluating new products, such as used two-wheeler loans; (ii) focusing penetration into current states and expanding the oversight of hubs to around 100 KM 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 location strategy by mapping industry performance and tightening policies; (iv) focusing growth plans on the right combination of customer segment and collateral type, by assessing loss given defaults based on a strengthened collections and recovery processes; and (v) enhancing digital capabilities to source and serve customers.

Reshape unsecured loans (Microfinance Loans) business: Jana Small Finance Bank offers a variety of unsecured loans, including individual and micro business loans, agricultural and allied loans, and urban group loans. The bank's key focus for its unsecured loan business is to increase end-use based loan products, such as dairy loans, loans for home improvement, unsecured loans for business purposes and debt consolidation. The bank also offers secured loans, such as affordable housing loans, loans against property, gold loans and two-wheeler loans. The bank has a strong presence in unbanked rural centres, with 278 banking outlets as of September 30, 2023. This represents 36.06% of the bank's total banking outlets, which is well above the regulatory requirement of 25.00%. The bank plans to continue to increase the number of banking outlets in unbanked rural centres.

Improve risk profile: Jana Small Finance Bank tailors its credit assessment to different business segments, with specific scorecards for most types of loans. These scorecards exclude secured loans exceeding Rs. 50,000, gold loans, and group loans. In addition to these customized tools, the bank leverages credit bureau scores and data from CRIF Highmark and CIBIL across all businesses. To maintain consistency in credit decisions despite a decentralized structure, a central underwriting unit handles approvals for secured loans up to Rs. 250,000. For secured loans, the bank implements a risk rating model based on the loan life cycle, allowing for dynamic adjustments in pricing, review frequency, and early warning systems. This model also aids in identifying retention and cross-selling opportunities. Jana Small Finance Bank is actively working to strengthen its risk profile across various areas. This includes enhancing controls in the gold loan business, mitigating default risks in group loans, and further digitizing secured loan processes. As part of this strategy, the bank launched a supply chain financing business in the 2021 fiscal year.

Enhance the growth of Retail Deposits: The bank has shifted its focus to expanding its Retail Deposit portfolio. To achieve this, a daily sales rhythm program has been launched, setting ambitious targets for each branch staff member. Each staff member is challenged to meet with 15 potential Retail Deposit customers daily, generate 10 leads, and convert five into customers. This data-driven approach is expected to boost sales productivity. Additionally, dedicated sales and monitoring processes will be implemented to activate existing customers, ultimately leading to an increase in Retail Deposits, a lower cost of customer acquisition, and a reduction in overall deposit costs.

- Other strategies for increasing its Retail Deposits include the following:
- Increase product and service offerings to non-Resident Indians ("NRIs"):
- Continue digital on boarding for entities
- Grow corporate salary business
- Alliances with third parties from banking to broking
- Increase its distribution of third-party products
- Broaden its product suite.

Offering transaction banking services to other companies: To empower cooperative bank customers with modern payment solutions, the bank is extending its sponsorship programs. This will grant them access to vital services like NEFT, RTGS, IMPS, and ATM networks. Beyond payments,

the bank remains committed to offering comprehensive transaction banking, including CASA composite solutions, to its supply chain finance partners. To broaden its reach and product offerings, the bank is strategically partnering with select fintech and banking correspondents. These partnerships leverage the strengths of both parties, providing innovative solutions and expanding geographic coverage. Additionally, the bank is exploring collaborations with fintechs to unlock new opportunities for generating CASA deposits through its supply chain network.

Deepen customer relationships: The bank is doubling down on cross-selling loans and insurance to responsible existing customers. The bank will leverage customer data and credit bureau information to target the right people for loan top-ups and relevant products.

- **Focus on variety:** Two-wheeler, house, personal, gold, school fee, and computer loans, alongside health, life, and general insurance, are all on the cross-selling menu.
- **Programs drive convenience:** The "Sunrise Program" and "Home 360" bundle various products – loans, insurance, and more – for existing customers, offering a one-stop shop for their financial needs. This approach benefits both sides: customers get convenience and potentially better deals, while the bank mitigates risk and offers more secure loan options, gaining valuable insights into customer behavior.

Continued focus on digitized operations: Jana Small Finance Bank prioritizes digital transformation as a core strategy. This focus is evident in its continuous development of the "Jana" app and mobile channels. The app offers a seamless digital journey for customers, including account opening, management, and cross-selling opportunities. Digitization extends to its business operations, with mobile and tablet-based sourcing, credit evaluation, and collections implemented across all loan products. This includes improving the loan origination system for faster and more informed credit decisions, potentially integrated with fintech partners. Fraud prevention and regulatory compliance remain crucial, leveraging artificial intelligence and machine learning to automate processes and minimize manual intervention. Additionally, self-service options through mobile and internet banking are being expanded for increased customer convenience.

Risk factor

- The bank is subject to inspections by various regulatory authorities, such as the RBI, PFRDA, IRDA and National Pension System Trust.
- The bank is subject to stringent regulatory requirements and prudential norms.
- The bank is required to maintain a minimum cash reserve ratio ("CRR") and statutory liquidity ratio ("SLR").

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Spandana Sphoort	2357.36	477.59	67.10	14.71	2.09	471.98	10	986.95	7024.83
AU Small Finance	11523.40	1588.61	23.75	26.24	3.56	175.12	10	623.10	41671.34
CreditAcc. Gram.	4779.78	1345.41	84.51	18.65	4.33	364.18	10	1576.50	25098.56
Equitas Sma. Fin	5994.39	781.38	6.90	15.11	2.15	48.48	10	104.25	11804.05
Suryoday Small	1516.93	154.86	14.59	11.21	1.03	158.63	10	163.55	1736.30
Fusion Microfin.	2257.97	487.12	46.02	12.81	2.30	256.09	10	589.70	5934.19
Bandhan Bank	19678.55	2541.08	15.77	14.12	1.72	129.09	10	222.65	35867.09
Ujjivan Small	6063.16	1261.37	6.45	8.86	2.48	23.08	10	57.15	11181.64
Utkarsh Small F.	3322.78	471.78	4.29	14.02	2.46	24.48	10	60.15	6607.68
Jana Small Finance Bank Limited**	4225.83	413.55	44.26	10.47	1.43	289.79	10	414.00	4330.04

*Peer companies financials are TTM based
 **Jana Small finance Bank are based on FY23

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.414 the stock is priced at pre issue P/E of 9.35x on TTM EPS of Rs.44.26. Post issue, the stock is priced at a P/E of 10.47x on its EPS of Rs.39.54.. Looking at the P/B ratio at Rs.414, pre issue, book value of Rs. 274.96 of P/Bvx 1.51x. Post issue, book value of Rs. 289.79 of P/Bvx 1.43x.

Considering the P/E valuation, on the lower end of the price band of Rs.393, the stock is priced at pre issue P/E of 8.88x on TTM EPS of Rs.44.26. Post issue, the stock is priced at a P/E of 9.94x on its EPS of Rs.39.54. Looking at the P/B ratio at Rs.393, pre issue, book value of Rs. 274.96 of P/Bvx 1.43x. Post issue, book value of Rs. 289.79 of P/Bvx 1.36x.

Industry Outlook

SFBs offer basic banking services such as payment, accepting deposits and lending to the unserved and the underserved segments of the Indian economy, including small businesses, marginal farmers, micro and small industries, and the unorganized sector. SFBs are focused on serving the customers at the bottom of the pyramid to drive financial inclusion. The growth in the industry is illustrated by the exponential growth in both advances and deposits and is supported by the robust rural growth, new product offerings and associated cross-selling opportunities, which will drive the SFBs' market share to multi folds in the future.

Outlook

While JSFB's solid financials, strategic focus, and promising growth trajectory make it an attractive investment prospect, potential risks and regulatory uncertainties warrant careful consideration before committing. Long-term investors may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	07-February-24
BID/ISSUE CLOSES ON	09-February-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	12-February-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	13-February-24
Credit of Equity Shares to demat accounts of Allottees	13-February-24
Commencement of trading of the Equity Shares on the Stock Exchanges	14-February-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Interest earned	1863.94	3075.01	2726.54
Interest expended	876.31	1414.99	1336.75
Net Interest Income	987.63	1660.02	1389.78
Other Income	351.63	624.87	335.83
Total Net Income	1339.26	2284.89	1725.61
Other Expenses	1126.04	2028.91	1708.14
PBT	213.22	255.97	17.47
Tax	0.00	0.00	0.00
PAT	213.22	255.97	17.47

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-23	As on 31-Mar-23	As on 31-Mar-22
Assets			
Cash and balances with Reserve	976.83	1010.94	1530.02
Bank of India			
Balances with banks and money at call and short notice	35.29	1076.37	7.07
Investments	5509.19	5221.23	5065.26
Advances	21008.71	17759.56	13006.67
Fixed assets	133.04	127.75	171.65
Other assets	442.81	447.85	408.03
Total Assets	28105.87	25643.69	20188.71
Liabilities			
Deposits	18936.72	16334.02	13536.49
Borrowings	5313.54	6277.46	4509.83
Other liabilities and provisions	1286.64	1234.96	941.68
Total Liabilities	25536.91	23846.44	18988.01
Net worth represented by:			
Equity Share Capital	343.53	324.98	201.41
Other equity	2225.44	1472.28	999.29
Net Worth	2568.97	1797.26	1200.70

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★★
EXCELLENT	★★★★★

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