



❖ About Jana Small Finance Bank

Jana Small Finance Bank is an RBI-registered SFB engaged in providing accessible banking services to underserved and unbanked populations. The bank is the fourth-largest SFB in India with a presence across 22 states and 2 Union Territories, operating 778 banking outlets nationwide. As of Q3FY25, the bank's advances book stands at ₹27,984 crores (68% secured), and deposits total ₹25,865 crores. Asset quality of the bank remains stable, with Gross NPAs of 2.71%, Net NPAs of 0.91%, and a Provision Coverage Ratio of 66.94%. Post the completion of FY25, the bank intends to apply for a universal banking license under the new RBI guidelines which will aid the bank in mobilizing lower-cost deposits. The return ratios remain healthy, with an annualised adjusted ROA of 2.4%, ROE of 20.7%, and a book value of ₹380 per share.

❖ Why Do We Like Jana? (Macro + Micro)

➤ Macro Tailwinds

Peak of MFI Stress Behind: Banks and NBFCs in India have faced significant challenges in the microfinance (MFI) sector, largely due to elevated rural unemployment, which slowed the post-COVID recovery. This stress was further compounded by an election-related slowdown in government infrastructure spending, inflationary pressures, and rising interest rates. However, with inflation beginning to ease, the Reserve Bank of India (RBI) has shifted its monetary policy stance from neutral to accommodative.

In the December 2024 MPC meeting, the RBI cut the Cash Reserve Ratio (CRR) by 50 basis points. This was followed by two consecutive repo rate cuts of 25 basis points each in February and March 2025, totalling a 50-basis-point reduction. Additionally, the RBI has undertaken an Open Market Operation (OMO) and other liquidity-enhancing measures, including a Variable Rate Repo auction and a USD/INR Buy-Sell Swap.

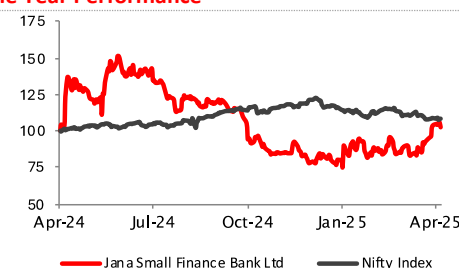
These coordinated actions are expected to aid economic recovery, improve liquidity in the banking system, and support a more stable environment for the MFI sector going forward.

Rating	TP (Rs)	Up/Dn (%)
BUY	625	25

Market data

Current price	Rs	499
Market Cap (Rs.Bn)	(Rs Bn)	52
Market Cap (US\$ Mn)	(US\$ Mn)	615
Face Value	Rs	10
52 Weeks High/Low	Rs	760.9 / 363.8
Average Daily Volume	('000)	284
BSE Code		544118
Bloomberg		JSFB.IN
Source: Bloomberg		

One Year Performance



Source: Bloomberg

% Shareholding	Mar-25	Dec-24
Promoters	22.28	22.35
Public	77.72	77.65
Total	100.00	100.00

Source: BSE

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Regulatory Headwinds Abating: On February 25, the RBI reversed its earlier tightening by restoring the risk weight on bank loans to NBFCs from 125% to 100% and removing higher risk weights on microfinance loans. This follows the November 2023 hike aimed at curbing rapid growth in unsecured credit. With this easing, the trend of declining unsecured lending may be nearing an end. While Jana doesn't expect strong growth in this segment, stabilization is likely, which should help steady Net Interest Margins (NIMs).

➤ **Micro Factors**

Focused On Growing The Secured Book: Jana, initially an urban microfinance institution, has been transitioning to focus more on secured loans since becoming a small finance bank. The bank's secured loan portfolio, which includes affordable housing loans, micro-LAP, MSME loans, vehicle loans, gold loans, loans against FDs, and loans to NBFCs, now accounts for 68.2% (₹19,085 Crores) of its total advances of ₹27,984 Crores as of Q3FY25 as against 50% in FY22.

The bank plans to increase this proportion to 80% over the next three years by growing secured advances faster than unsecured loans. While this shift may compress Net Interest Margins (NIMs) in the short term due to lower yields on secured loans, the secured nature of these assets reduces credit risk and lowers credit costs. This is expected to lead to better return ratios, improved profitability, and enhanced financial stability in the long run.

Granular MFI Book: As of December 2024, Jana's unsecured advances book (MFI) stands at ₹8,899 Crores, accounting for 31.8% of the bank's total advances. Given the significant contribution of MFIs to the overall advances, the granularity of this portfolio becomes crucial. As shown in the table below, individual loans make up 57.58% of the unsecured book, with an average ticket size (ATS) of ₹49,130. These individual loans are considered lower risk compared to group loans, as the likelihood of a large-scale NPA arising from a group's decision not to repay is minimal.

Other segments within the unsecured book include the BC (Business Correspondent) portfolio, which constitutes 18.46% of the total. For these loans, the bank has secured financial guarantees (deposits) from business correspondents, amounting to 4-5% of the outstanding advances. These guarantees are invoked as provisions once a borrower's account turns NPA. Group loans, which make up 23.97% of the unsecured advances, have an average ticket size of ₹34,856.

This well-diversified customer base, with lower average ticket sizes, enhances the stability of the unsecured portfolio, even in adverse conditions.

Product Wise Advances	December '24	% of Secured Book	Average Ticket Size
Individual Loan	5124	57.58%	49,130
~ Agri	1576	17.71%	49,740
~ Non Agri	3548	39.87%	48,865
Business Correspondent Book	1643	18.46%	26,541
Agri Group Loans	1424	16.00%	27,928
Group Loans	709	7.97%	34,856
Total Unsecured Book	8899	100.00%	37,478

Experienced Management team: Jana is led by a highly experienced management team, as outlined in the table below, along with brief profiles of each member.

Management	Position	Profile
Mr. Ajay Kanwal	MD & CEO	Brings 35 years of banking experience across Asia, with senior roles at Citibank, Standard Chartered, TPG, and Mastercard, and board positions at banks in Singapore, China, and Indonesia.
Mr. Krishnan Subramania Raman	ED & Chief Credit & Collections Officer	Brings 35+ years of experience in credit and risk management across India, Singapore, Indonesia, and the UAE. Has held senior roles at Mashreq Bank, Standard Chartered Permata Bank, and Dunia Finance, with expertise in credit, NPA management, and risk frameworks.
Mr. Abhilash Sandur	CFO	Brings 15+ years of finance experience with expertise in controllership, business planning, cost control, and balance sheet management. Has held roles at ING Vysya Bank, Kotak Mahindra Bank, and Bharti Axa General Insurance.

Potential To Turn Into A Universal Bank: The RBI has outlined a new glide path for small finance banks to transition into universal banks, with specific criteria for this conversion. While Jana Small Finance Bank meets most of the required conditions for applying for a universal bank license, it expects to satisfy the NPA guidelines—specifically, Gross NPAs (GNPAs) below 3% and Net NPAs (NNPAs) below 1%—by the end of FY25. The management has indicated a target timeline of May 2025 for submitting the application for a universal banking license.

This transition from a small finance bank to a universal bank will bring changes to regulatory guidelines, including adjustments to the Priority Sector Lending (PSL) requirements, the introduction of new products, and a better ability to attract low cost deposits reducing the cost of funds for the bank to the tune of 25 bps.

Diversified Geographic Presence: Jana has a strong and diversified presence across India, spanning 22 states and 2 union territories. The top three states—Karnataka, Maharashtra, and Punjab—contribute 11%, 11%, and 8% of the bank's total business, respectively. With a network of 778 banking outlets, including 656 branches and 122 business correspondent outlets, Jana's extensive geographic reach helps mitigate the risks posed by natural calamities or region-specific economic downturns, ensuring minimal impact on its unsecured portfolio.

❖ What Can It Deliver?

We project Jana to deliver a 14% CAGR in Net Interest Income (NII), supported by a 15% growth in Advances between FY25E and FY27E. Pre-Provision Operating Profit (PPOP) is expected to grow at a CAGR of 16.6%, driven by a 13.8% rise in operating income and an 11.9% increase in operating expenses. With accelerated provisioning requirements easing post-FY25, PAT is projected to grow at 29.6%. Based on our estimated FY27 Book Value of ₹569, we assign a 1.1x Price-to-Book multiple, leading to a target price of ₹625.

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