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# Jana Small Finance Bank


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# Long Term Recommendation
# Jana Small Finance Bank

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**CMP: INR419**
**Rating: BUY**
**Target price: INR600**
**Upside: 43%**

Date: April 08, 2025

| Bloomberg: | JSFB:IN |
|---|---|
| 52-week range (INR): | 364/761 |
| M-cap (INR cr): | 4,400 |
| Promoter holding (%) | 22.35 |

- **Jana Small Finance Bank (JSFB), since inception has focused on financial inclusion by serving underserved and unbanked populations in India. It evolved from an NBFC to an NBFC-MFI, then to a small finance bank, and became a scheduled commercial bank in 2019.**
- **In the past six years, JSFB has seen a remarkable transformation, particularly after the appointment of Mr Ajay Kanwal as CEO in August 2017. The change ushered in a fresh strategic direction and a clear focus on key growth areas such as: i) a shift towards a more balanced and secured retail loan book, ii) reshaping its microfinance book, iii) enhancing its deposit base, and iv) advancing its technological capabilities. These initiatives have started bearing fruit with the share of unsecured loan book falling to ~32% as of Q3FY25 from 50% in FY22, while the share of the secured portfolio rising to 68% from 50% in FY22. Furthemore, CASA mobilisation, loan-to-deposit ratio, and overall asset quality have also improved.**
- **JSFB is the fourth largest small finance bank in terms of advances and deposits as of Q3FY25. It boasts an AUM of INR27,984cr and has 778 banking outlets (including 252 outlets in unbanked rural centres) spread across 22 states and two Union Territories.**
- **Initially, the bank faced delays in establishing liability branches due to lower profitability and in the aftermath of demonetisation and the COVID-19 pandemic. But in the past three years, it has improved its deposit franchise (27% CAGR over FY22–Q3FY25) despite competition.**
- **It intends to apply for a Universal Bank licence in Q1FY26 by focusing on adhering to all requirements such as maintaining GNPA/NNPA under 3%/1% for two consecutive fiscals and reporting net profits for the last two financial years. Upon transitioning, the management expects the cost of deposits to fall by ~25bp along with enhanced growth in CASA and total deposits.**
- **While FY25 could see a moderation in profitability due to higher credit cost and de-growth in its MFI loan book. FY26 is likely to be a normalized year with easing credit costs, healthy return ratios and stable growth on the balance sheet front. With attractive valuations and favorable risk-reward ratio we initiate coverage with a 'BUY' rating and a TP of INR600 (1.1x FY27E ABV).**

### Secured loan book to drive credit growth at an accelerated pace

Since its transformation into an SFB, JSFB has seen a significant transition to secured book (backed by collateral) from unsecured loans. Its secured book grew at 39% CAGR over FY22-Q3FY25, taking overall share of secured book to 68% in Q3FY25 from 50% in FY22. The accelerated growth in secured book led total loan book to grow at a CAGR of 25% during the same period. We expect its gross loan book to clock 21% CAGR over FY24–27E, with an expected increase in the share of secured loans to ~80% by the end of FY27E from 68%, in line with the management's guidance.

### Asset quality to stay strong post a temporary blip

Asset quality in H1FY25, deteriorated marginally given the rising stress in the MFI segment. Incidentally, JSFB rise in GNPA was minimal in contrast to the widespread deterioration in quality of portfolio for some NBFC's, SFB and also in some private banks which have exposure in MFI. Furthermore, the management believes the stress to have peaked for JSFB and expects the asset quality to improve in FY26. The banks shift towards secured lending, with strong underwriting mechanism, guarantee programs undertaken for unsecured loans, reduced dependence on BC channels along with a shift towards individual loans from group loans has helped asset quality to remain stable even in the tough market in FY25. However, we shall continue to keep a close watch on asset quality, particularly in the microfinance space, until there is a meaningful turnaround visible at the system level.

### Return ratios to stay strong in near-term but normalize post-FY27 amid tax adjustments

Concerted effort to boost retail deposits and CASA has helped deliver stable NIM's, despite increasing share of secured loans. For FY25, opex is expected to remain elevated due to incremental efforts for collection; however it is likely to start easing from FY26 on account of moderation in collection cost and increasing operating efficiency. Moving towards secured loans will also restrict slippages and eventually credit cost. We expect return ratios to remain elevated on account of moderating opex and credit cost. Hence; we have projected ROA of 1.7%-1.9% and ROE of 16%-18% for FY26-27E. It is pertinent to note that, the bank holds an unrecognized Deferred Tax Asset (DTA) of ~INR 735 crore, enabling tax-free operations until FY27.

### Valuation and view

The bank has the scale to achieve sustainable profitability given focus on stronger deposit mobilization, its changing loan mix towards secured lending, better operating leverage and normalization of credit cost amid better asset quality. This will help JSFB maintain a RoA of 1.7–1.9% in FY26E-FY27E. Given the attractive valuations, expected stability in return ratios and better asset quality, we initiate coverage with a **'BUY' rating** and a TP of INR600 with an upside of 43% from its CMP.

### Key financials

| Year to March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Net revenue (INR cr) | 2,285 | 2,798 | 3,266 | 3,912 | 4,740 |
| Net profit (INR cr) | 256 | 670 | 518 | 724 | 973 |
| Basic EPS (INR cr) | 7.9 | 64.0 | 49.5 | 69.3 | 93.1 |
| P/E ratio (x) | 53.2 | 6.5 | 8.5 | 6.0 | 4.5 |
| Adjusted BV per share | 48.1 | 335.8 | 378.8 | 447.9 | 541.3 |
| P/ABV ratio (x) | 8.7 | 1.2 | 1.1 | 0.9 | 0.8 |


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## Business structure

We expect gross advances to clock a 21% CAGR over FY24–27E, with a greater focus on growing its secured loan book to ~80% by FY27E. This will correspondingly reduce the proportion of unsecured loans to 20% from 32%, which will help mitigate overall risks especially on the microfinance front. Considering the improvement in operating efficiencies and moderation in credit cost, we expect net revenue/operating profit/net profit to clock 19%/18%/13% CAGR over FY24–27E. We see JSFB achieving a FY26E/FY27E RoA/RoE in the 1.7-1.9%/16–18% range.
Given the attractive valuations, expected stability in return ratios, and improving asset quality, we initiate coverage with a 'BUY' rating with a TP of INR600 (1.1x FY27E ABV), a potential upside of 43% from its CMP.

JSFB's NIM is expected to moderate a tad due to declining share of high yielding unsecured loan portfolio. However, the compression is likely to be offset by the increasing share of CASA. NIM is expected to be 7.3%/7.2% in FY26E-27E

Improvement in other income and better cost management is likely to help PPoP to grow at a CAGR of 18% in FY24-FY27E.Credit cost is expected to remain high in FY25 amid industry wide stress in the MFI segment. However, with gradual easing of headwinds, credit cost could see a moderation towards 2.8% in FY26E and 2.6% in FY27E.

We expect return ratios (RoA/RoE) to be in 1.7–1.9%/16–18% range in FY26E/FY27E led by effective cost management, lower credit cost, and a pick-up in revenue.

| INR cr | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| NII | 2,127 | 2,540 | 3,062 | 3,706 |
| OI | 671 | 726 | 849 | 1,033 |
| Opex | 1,605 | 2009 | 2,328 | 2,796 |
| PAT | 670 | 518 | 724 | 973 |

| (%) | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| RoA | 2.4 | 1.5 | 1.7 | 1.9 |
| RoE | 25 | 13.5 | 16.3 | 18.3 |

| INR | FY27E ABV | CMP |
|---|---|---|
| 0.8x (CMP) | 541 | 419 |

At the CMP, FY27E P/ABV is 0.8x

+

Expect RoE to be in the 16%–18% range after a dip in FY25

+

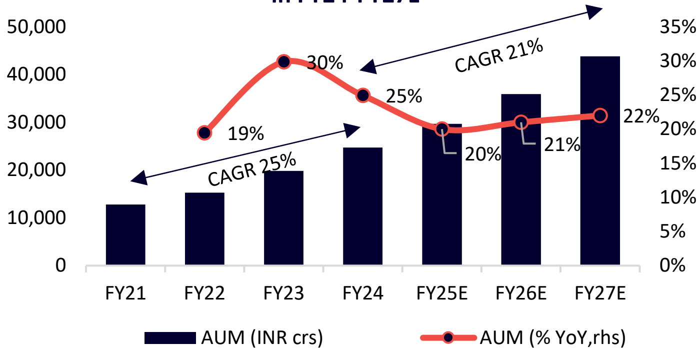
Exit price of 1.1x 27E ABV at the TP of INR600 implies an upside of 43%

**Upside: 43%**

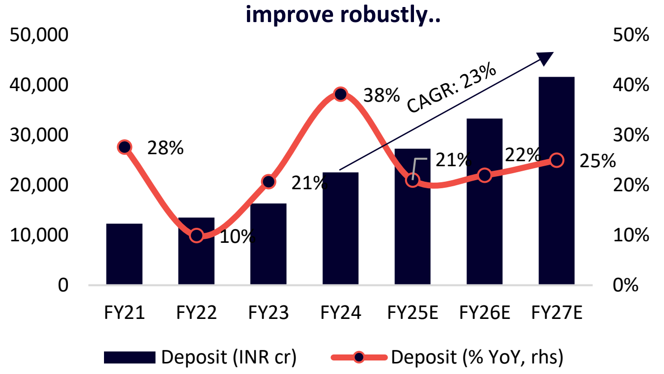
Note: PAT and return ratios for FY24 is after considering DTA of Rs. 155 crores.
For FY25, return ratios are calculated assuming no DTA consideration is taken beyond INR 24crs (INR 24cr DTA is taken so far in 9MFY25)

## Story in Charts

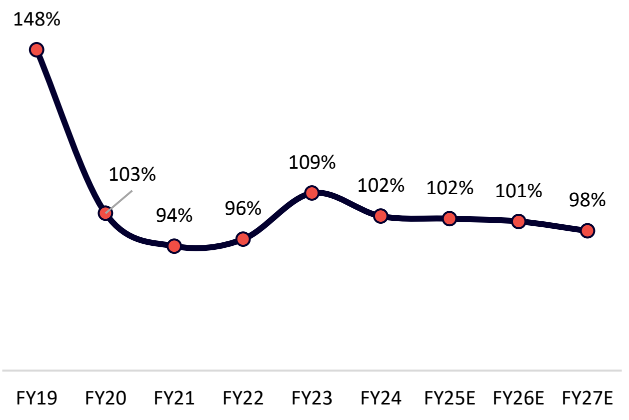
### Exhibit 1: AUM expected to grow at a CAGR of 21% in FY24-FY27E



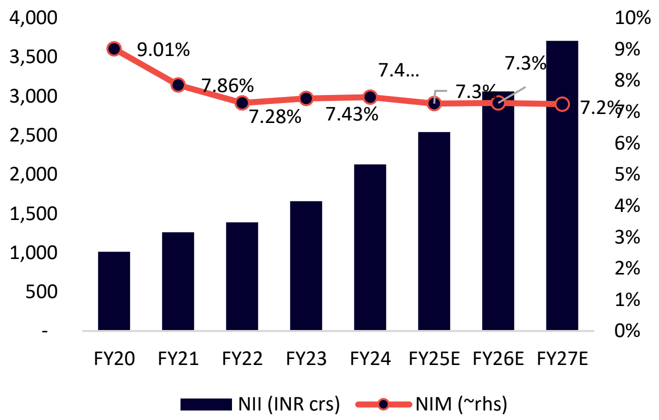

### Exhibit 2: Pace of deposit mobilisation to improve robustly..



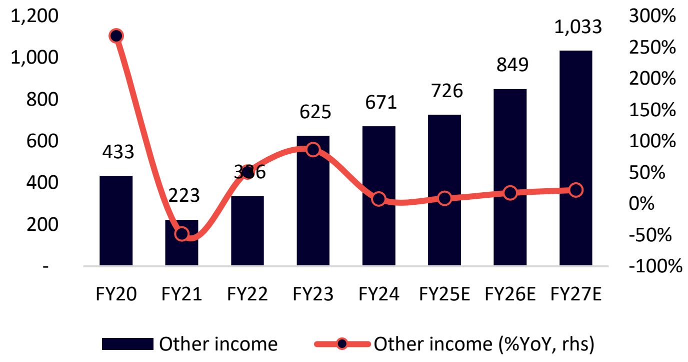

### Exhibit 3: …Which will help the CD ratio to normalize gradually



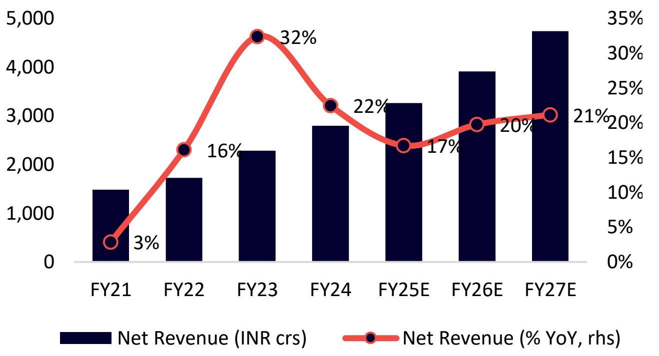

### Exhibit 4: NIM to moderate a tad due to declining share of high yielding unsecured loan portfolio




### Exhibit 5: Other income to grow at steady pace




### Exhibit 6: NR expected to grow at a CAGR of 19% in FY24-27E




Source: Company, Nuvama Wealth Research

**Exhibit 7: C/I expected to ease gradually, aided by better cost management**

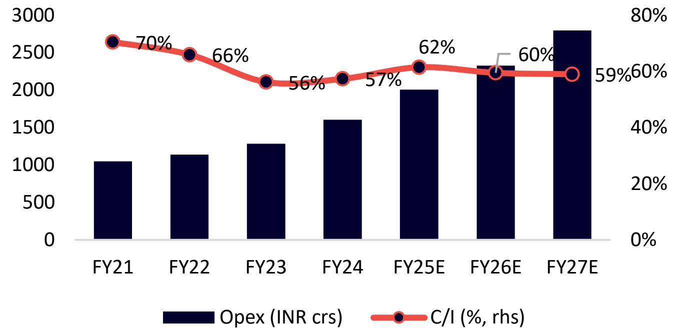



**Exhibit 8: Steady pick up in NR and better cost management to help PPOP grow at a steady pace**

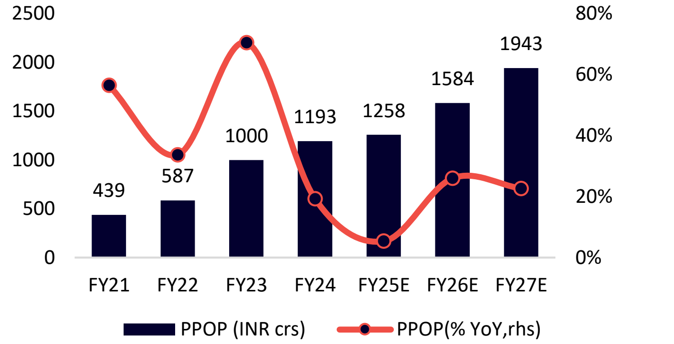



**Exhibit 9: Credit cost to remain elevated in FY25 amid stress in MFI space post which it is expected to gradually inch down**

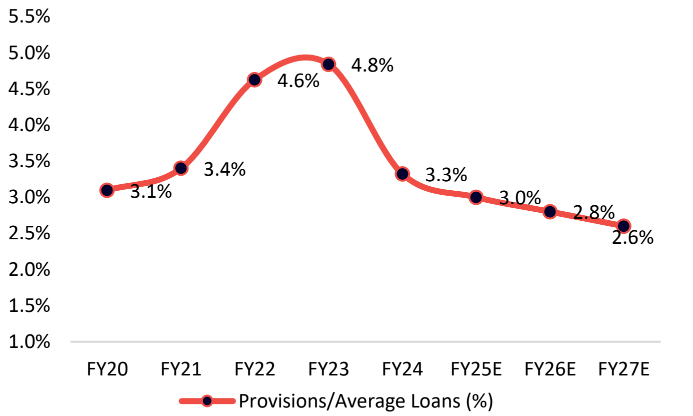



**Exhibit 10: Higher provisions to hit PAT in FY25, but set to improve thereafter**

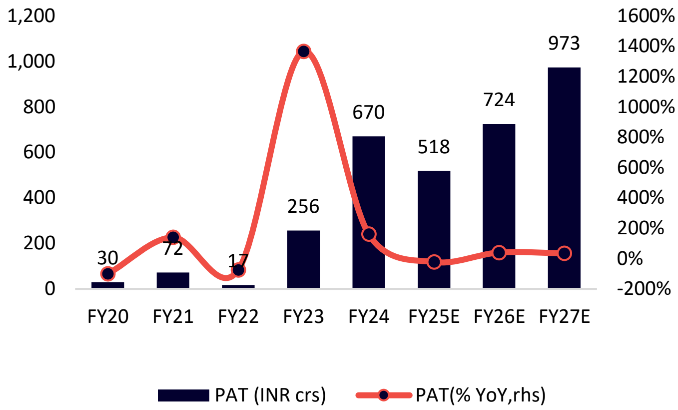



**Exhibit 11: Return ratios expected to stabilize post a marginal dip in FY25**

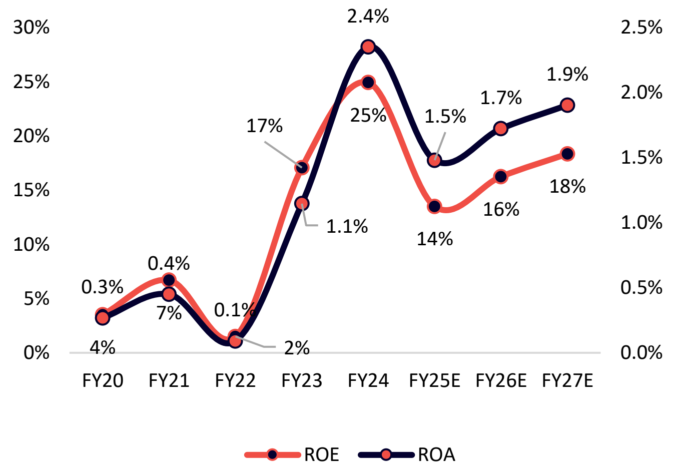
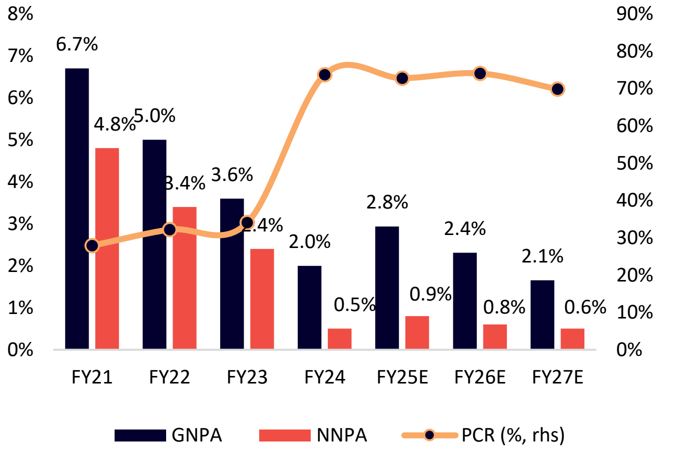



**Exhibit 12: Asset quality to improve post a mild deterioration in FY25**

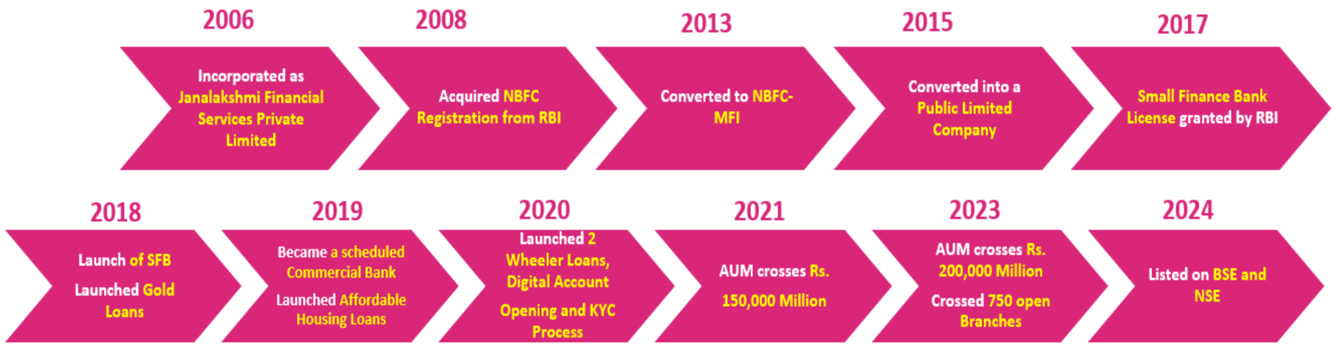



Source: Company, Nuvama Wealth Research

## About Jana Small Finance Bank

Jana Small Finance Bank (JSFB) since its inception has consistently focused on financial inclusion, offering banking services to underserved and unbanked populations in India. Incorporated in 2006, JSFB has undergone an institutional transformation, progressing through various stages of growth and expansion. It evolved from a non-banking finance company (NBFC) to a NBFC-microfinance institution (NBFC-MFI) then transitioned to a small finance bank (SFB) in 2018 and was ultimately granted the status of a scheduled commercial bank in 2019. In February 2024, it got successfully listed on the stock exchanges.

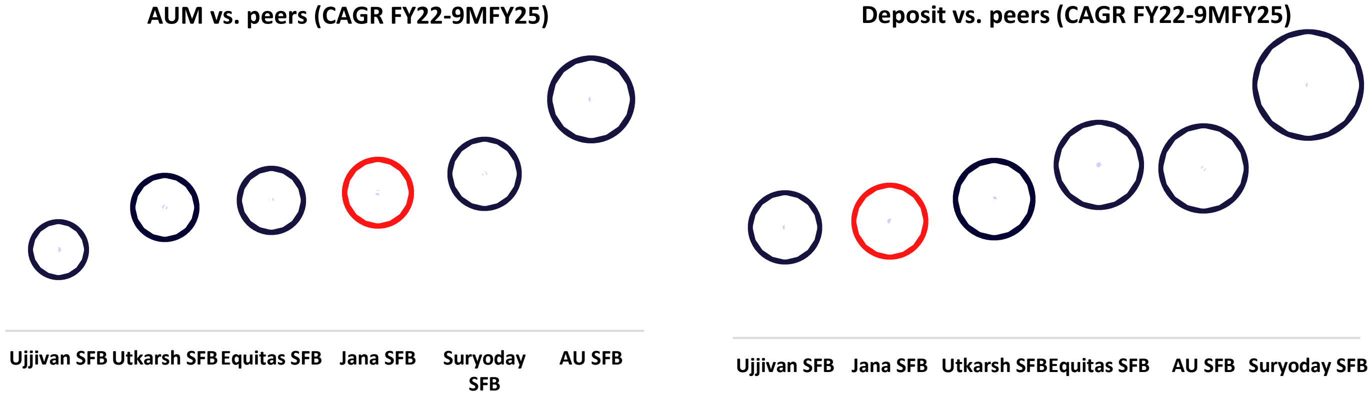
**Exhibit 13: Timeline: From inception to expansion**




### Turning the tide

Over 2016–20, JSFB endured challenges in the aftermath of demonetisation and the COVID-19 pandemic, rising NPAs, regulatory hurdles from its transition to a SFB, and operational inefficiencies. However, since then it has seen a significant transformation by i) focusing on financial inclusion, ii) diversifying its product offerings, iii) embracing digital transformation, iv) strengthening its capital base, v) improving risk management practices, and vi) strengthening its top management team. As of Q3FY25, JSFB is the fourth largest SFB in terms of its balance sheet. The bank boasts an AUM of INR27,985cr (25% CAGR over FY22–Q3FY25) and has 778 banking outlets (including 252 banking outlets in unbanked rural centres) in 22 states and two Union Territories. It has served more than 1.2cr customers since 2008, including 46lk active customers as of Q3FY25. JSFB was initially slow in expanding its liability branch network after transitioning into a SFB, primarily due to weak profitability and the impact of the Covid-19 pandemic. However, over the last three years, JSFB has made meaningful progress in strengthening its deposit franchise, with notable improvement in CASA and retail deposit mobilization as it began investing in banking infrastructure and brand development.

**Exhibit 14: AUM and Deposit growth vs. peers**




Source: Company, Nuvama Wealth Research

## Investment hypothesis

### I. From microfinance to secured lending: A strategic pivot

**A secure future as it transitions towards secured lending**

Historically, most SFBs were originally set up as microfinance business. These SFBs quickly scaled up their activities and built large customer bases while gradually shifting to secured lending. While JSFB's focus on turning a SFB was microfinance loans, it undertook a similar transformation by gradually transitioning from microfinance lending to a more diversified model that included secured lending products. Share of secured loans in the total book scaled up quickly to 68% from 50% in FY22 and currently includes affordable housing loans, micro-LAP, MSME loans, term loans to NBFCs, two-wheeler loans, gold loans, and loans against fixed deposits. Since FY22 (till Q3FY25), the secured book has clocked ~39% CAGR to INR19,085cr as of Q3FY25. In contrast, the share of unsecured loans has fallen to 32%, or INR8,900cr, from 50% in FY22 and has grown at a CAGR of 6% since FY22. The unsecured book comprises of agricultural and allied loans, individual loans, and group loans. The strategic pivot towards secured lending helped improve asset quality, while staying true to its mission of financial inclusion.

**Exhibit 15: % share of secured portfolio (Q3FY25)**

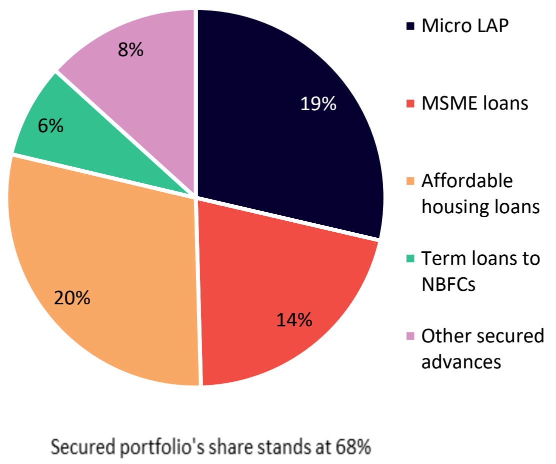
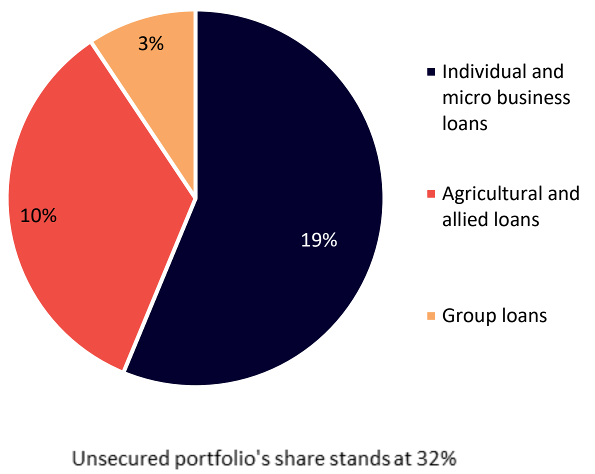



**Exhibit 16: % share of unsecured portfolio (Q3FY25)**




Source: Company, Nuvama Wealth Research

JSFB has the third highest share (68%) of secured advances among SFBs. By FY27, the management aims to take its secured loan book to ~80% by i) offering a range of products to its clients, ii) expanding its reach within existing states, iii) improving its location strategy by analysing industry performance and refining its policies; iv) focusing on the right mix of customer segments and collateral types, and v) advancing its digital capabilities.

**Exhibit 17: % share of secured loan portfolio vis-à-vis peers**

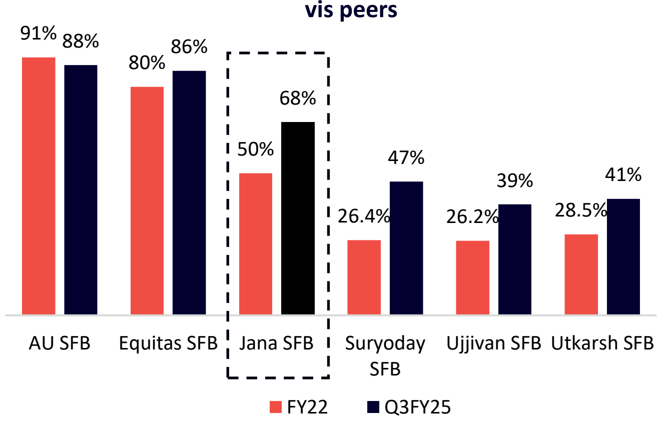
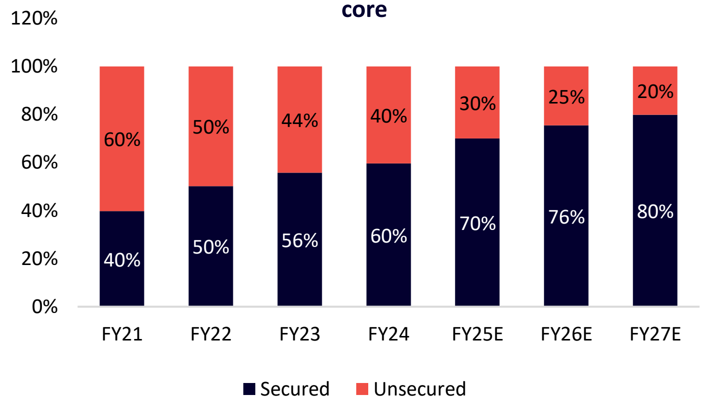
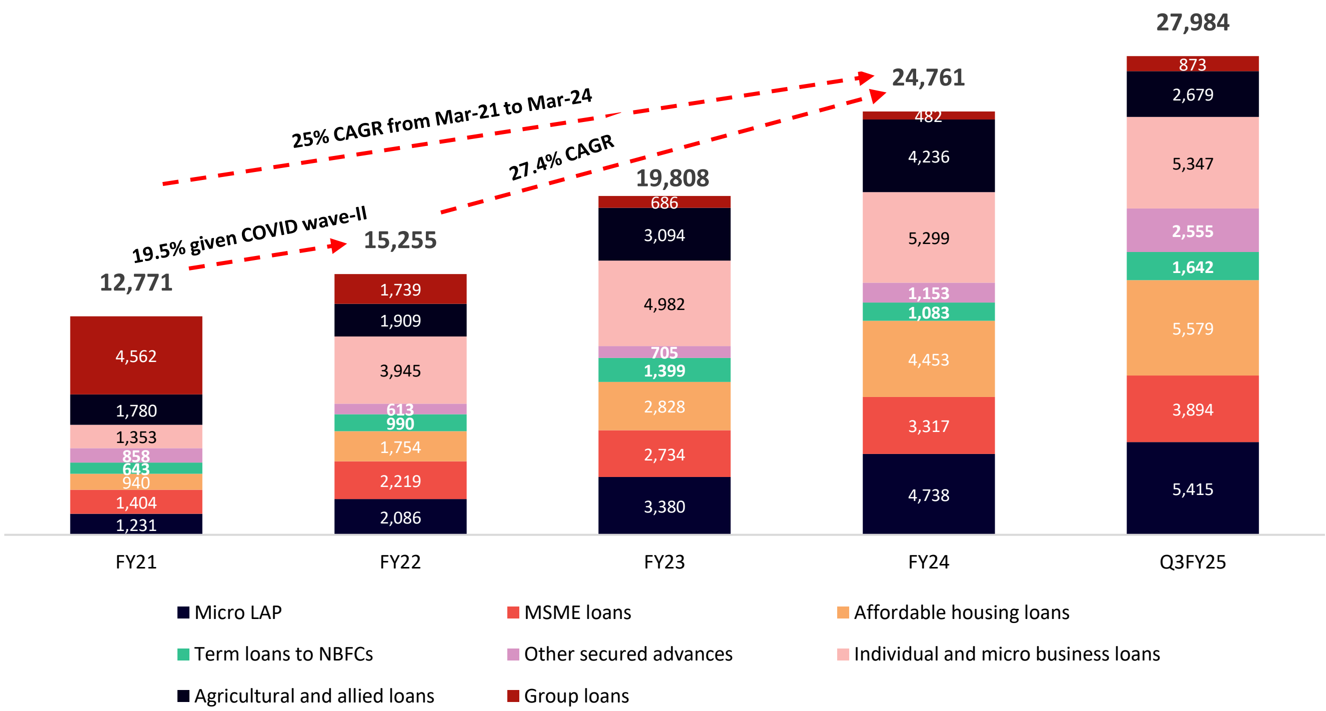



**Exhibit 18: Focus on making secured lending its core**




Source: Company, Nuvama Wealth Research

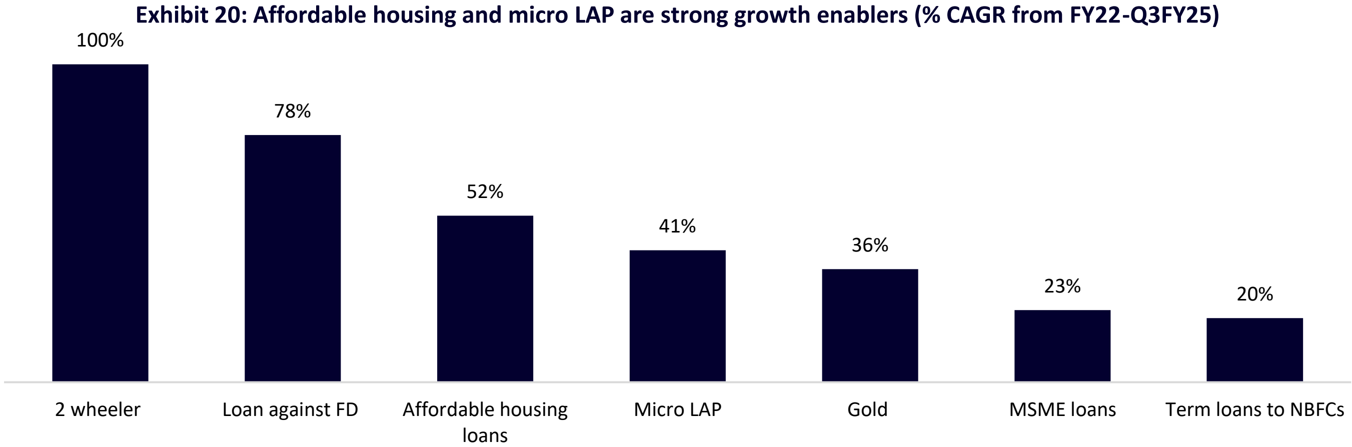
**Exhibit 19: Snapshot of JSFB's loan book performance (INR crs)**




Source: Company, Nuvama Wealth Research

Within its secured lending portfolio, it launched gold and MSME loans with revised credit and collateral conditions in FY18. In FY19, it began offering affordable housing and secured business loans and loans against fixed deposits. It forayed into two-wheeler loans in FY21. Micro LAP, affordable housing and MSME loans contributed ~53% to the total loan book in Q3FY25. Looking at the overall trajectory, the affordable housing/micro-LAP business has recorded strong growth (52%/41% CAGR in FY22-Q3FY25). CAGR for the two-wheeler loans looks optically higher on account of a lower base as the business was launched post-COVID in 2021. An unexpected increase in loans against FDs in Q3FY25 led its CAGR to surge but is expected to stabilise in Q4. JSFB's secured loans are backed by residential or commercial property; plant, machinery or inventory; or gold with an average LTV of ~46%. Every property-related relationship on a contractual basis is for around 10-15 years giving the bank a long-term relationship and more operating leverage with the customer.

**Exhibit 20: Affordable housing and micro LAP are strong growth enablers (% CAGR from FY22-Q3FY25)**




Source: Company, Nuvama Wealth Research

**HOME360- Becoming an anchor bank to customers**

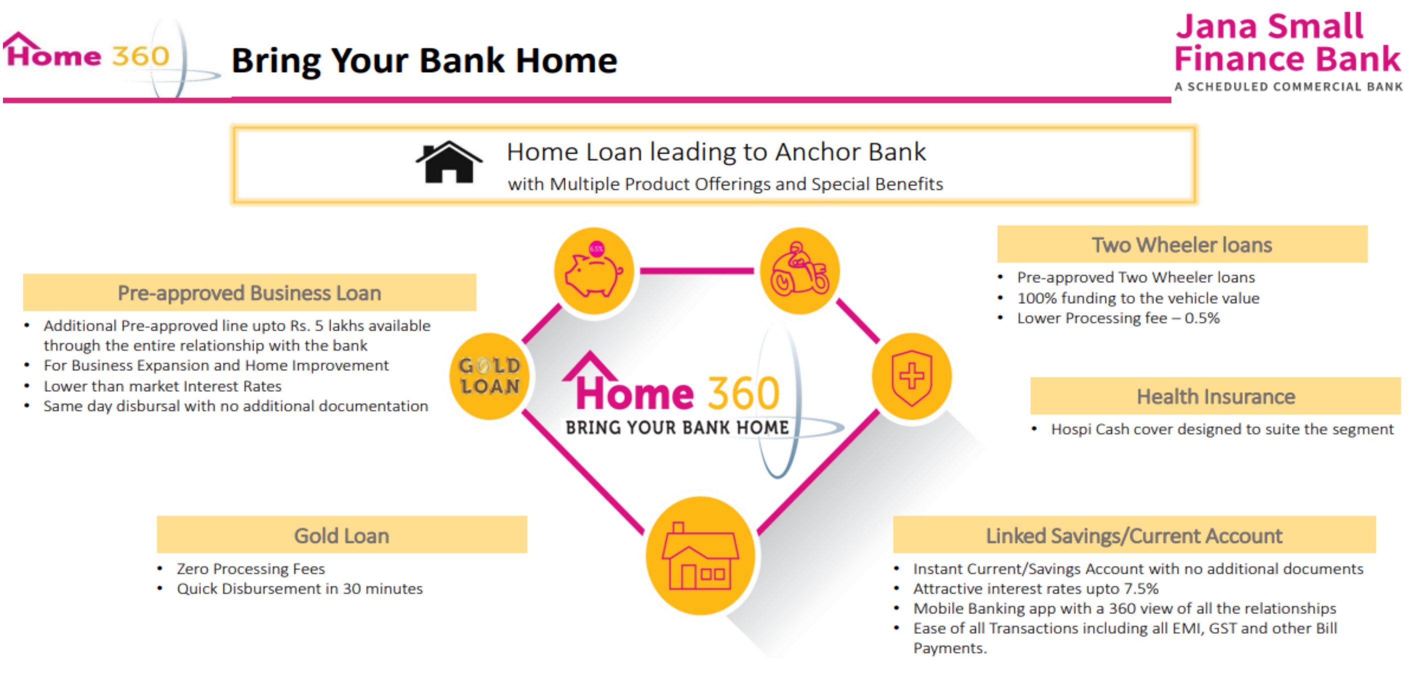
With customers preferring a single source for multiple financial services, JSFB's business model offers a **'one-stop shop'** that caters to the diverse financial needs of its clients. The bank has expanded its asset portfolio to cater to customers graduate from unsecured loans as well as new clients. The affordable housing business which was started around six years back has gradually evolved into 'HOME360", an initiative wherein housing loans act as an anchor product and is a strong enabler for selling multiple products to the same customer. Typically, affordable housing finance companies that specialise in lending to the formal and informal segment are a single product entity. However, JSFB offers multiple products such as a pre-approved two-wheeler loans, business loans, instant CASA accounts, gold loans, and health insurance products under this initiative. With HOME360, the bank has gained a competitive advantage as all products complement each other. Customers of Home360 can hold multiple loan products with JSFB, wherein their homes are used as collateral. This allows the bank to secure better credit at lower cost, with opportunities to cross-sell under the secured loan book. By providing pre-approved loans with home loans, its bond with customers becomes stronger, thereby reducing the BT-out risk.

i) **Two-wheeler loans:** Under HOME360, customers with a strong repayment capacity are eligible for a pre-approved two-wheeler loan with 100% LTV. These loans have a lower processing fee of 0.5%.

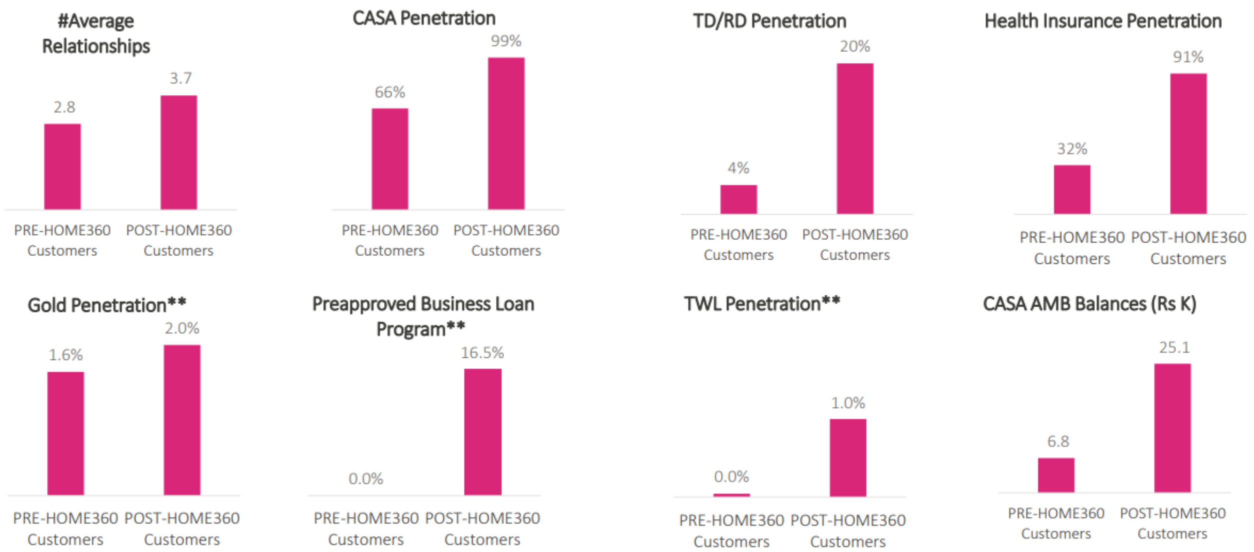
ii) **Business loans:** Customers with good repayment behaviour are eligible for a pre-approved top-up business loan up to INR5lk. As this loan is offered to existing home loan customers, the rate of interest is much lower than the market rate. With thorough due-diligence and analysis, the business loan is then disbursed within 24 hours with no additional documentation.

iii) **Gold loans:** JSFB cross-sells gold loans to its existing customer base with zero processing fees. Out of its total client base, ~15% comprise microfinance customers. The primary sales channel to these clients is the microfinance team which encourages them to avail a secured gold loan. JSFB plans to scale up its dedicated manpower to focus exclusively on gold loans while adding new variants to its offerings.

iv) **Health insurance** offered by the bank is not bundled with the loan. It's tailor-made to its customer segments to shield them from enforcing health-related issues within the family. The penetration rate post HOME360 has risen to 91% from 32% prior to the rollout of this initiative.




The positive outcome of HOME360 is evident in the increased penetration rates of these product offerings. Post HOME360, every housing loan or micro-LAP customer avails on an average ~3.7 products. CASA penetration rose 98%, with the average monthly balance rising to ~INR28,000. Cross-selling of gold/top-up business/two-wheeler loans after HOME360 rose to 2%/17%/1%.




***NOTE:***
**PRE-HOME360 Customers refers to customers on boarded before the HOME360 initiative. Customer Data as of Dec-2024 EOM.*
*** For Gold, Preapproved Top-up and TWL Penetration, customer penetration before HOME360 initiative is compared with latest quarter.*
*Data relates to Affordable Housing and Micro LAP customers only*

**Reshaping the unsecured loan (microfinance) business**

Before transitioning to SFB, the bank was an urban microfinance institution (MFI) that experienced poor asset quality across various cycles. Following its conversion to an SFB, its focus shifted towards scaling rural microfinance through the business correspondent (BC) model, thereby reducing its emphasis on urban microfinance. The primary focus of its unsecured lending was agriculture-related business. The share of unsecured lending (microfinance) business stands at 32%, or INR8,900cr, of which 18% is sourced through BCs and the rest includes individual, agriculture, and group loans sourced and collected by the bank.

Due to stress in the microfinance segment in the last three quarters, JSFB has now adopted a cautious approach. The microfinance sector at the bank level is facing issues related to customer leverage, employee attrition, and inadequate performance of BCs. In this regard, the management has undertaken certain initiatives such as:

**Customer leverage**

- The norms for customer leverage have been further tightened.
- Maximum exposure for new to bank or existing customers has been reduced to INR50,000.
- Total exposure to a NTB and ETB customer will not exceed INR1.25lk. It was initially INR1.5lk/INR2lk for NTB/ETB customers.

**Employee attrition**

- To control attrition, JSFB elevated its employee engagement and family connect programmes as well as festival celebrations.
- It has strategically reduced the account-to-collector ratio to 298 in September from 357 in March 2024.
- JSFB has enhanced its compensation programme to reflect the greater challenges in collections.

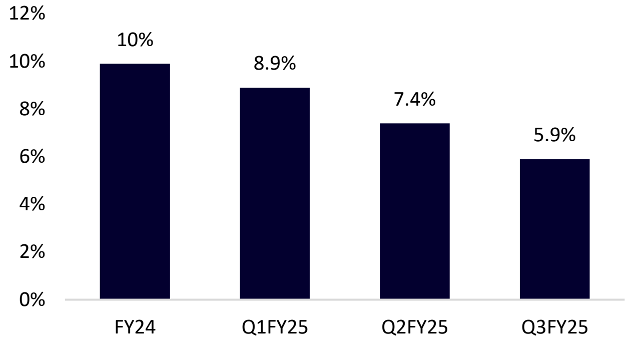
**BC performance**

- The bank has 17 BCs (INR1,600cr book). Of this, 14 are performing well while three are facing challenges.
- The bank has deputed senior level resources to aid three BCs in collections.
- JSFB has taken additional service guarantees on disbursals.
- Additional guardrails have been implemented to restrict their growth which was very high in FY24. This led to the contribution from BCs falling to 6% in Q3FY25 from 10% of the total loan book in FY24.

**Exhibit 21: Stress in microfinance led by the BC book**

| Product wise unsecured book | Dec-24 Advances | GNPA | NNPA | PCR |
|---|---|---|---|---|
| Individual and micro business loans | 5,124 | 3.2% | 0.8% | 75.8% |
| Agricultural loans | 1,424 | 3.9% | 0.7% | 82.4% |
| Group loans | 709 | 0.8% | 0.1% | 81.3% |
| BC book | 1,643 | 9.2% | 0.2% | 98.3% |
| **Total unsecured book** | **8,899** | **4.2%** | **0.6%** | **85.9%** |

**Exhibit 22: Share of total advances sourced by BCs fall**



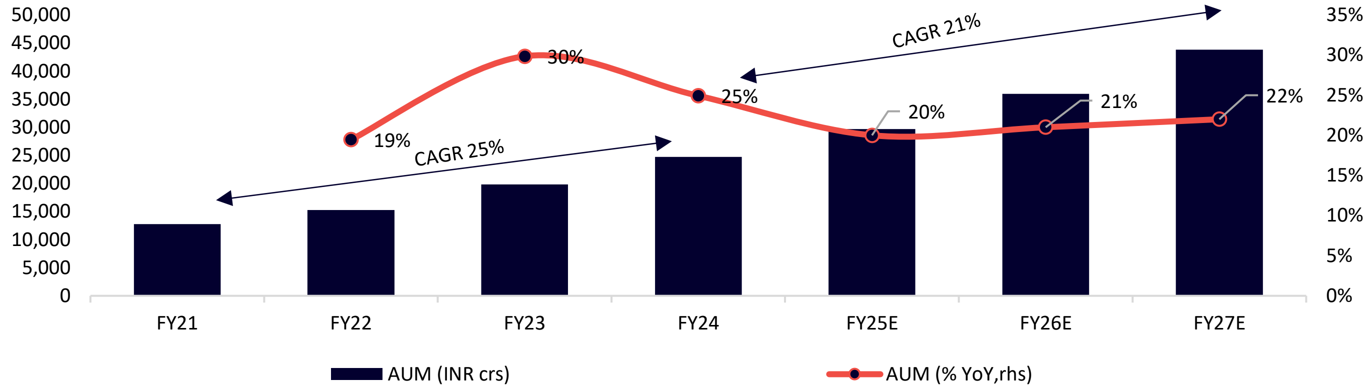

**JSFB's well-defined future strategy**

- JSFB plans to leverage its retail financial services distribution team to expand its two-wheeler and gold loan offerings.
- It aims to accelerate growth in affordable housing and micro-LAP.
- By implementing various strategies, it aims to raise the share of its secured lending portfolio to 80% by FY27 from 68%.
- Within the unsecured portfolio, the bank has been gradually migrating towards individual from group loans.
- JSFB has initiated Credit Guarantee Trust Fund for Micro and Small Enterprises (CGTMSE) and Credit Guarantee Fund for Micro Units (CGFMU) which covers about 13.3% (INR1,186cr) of its unsecured portfolio. By FY25-end, the management plans to raise the coverage to 28–30% (~INR2,500cr) of the unsecured book under both guarantee programmes.
- The BC business will persist but with more stringent guardrails than MFIN.
- It will focus on its existing customer base, including those with closed loans.

**Outlook: Healthy loan growth to be driven by secured lending**

Between FY21 and FY24, JSFB's loan book grew at a 25% CAGR. Looking ahead, we anticipate the gross loan book to expand at a 21% CAGR from FY24 to FY27E. At the current pace of secured loan expansion, we believe the bank is well on track to achieve the 80% secured loan mix by FY27, as outlined in its growth strategy.

**Exhibit 23: Expect 21% AUM CAGR over FY24–27E**



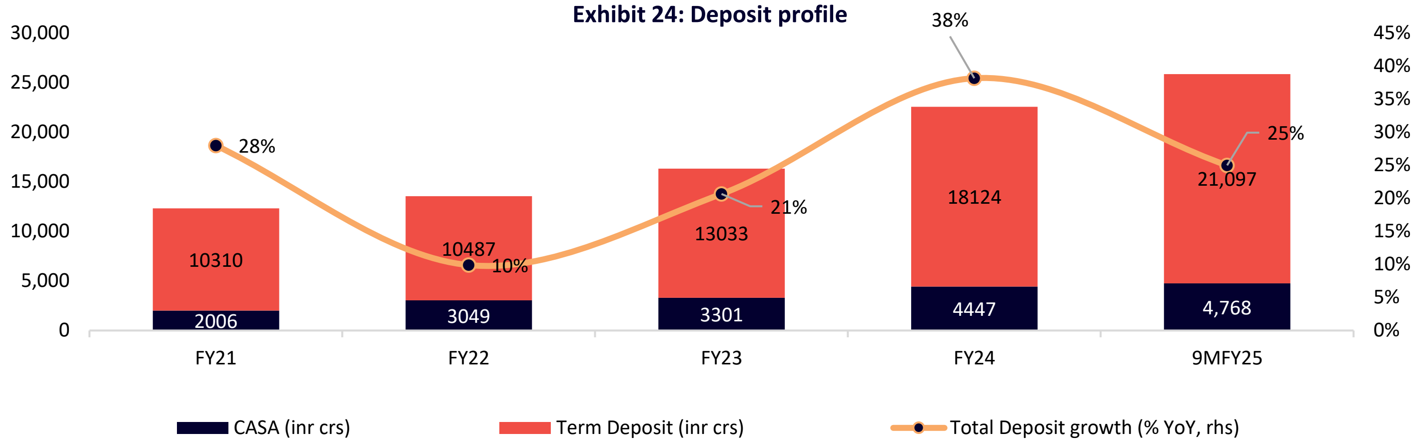

Source: Company, Nuvama Wealth Research

## II. Paving the way for robust liability expansion

**Fortifying its retail deposit engine**

JSFB was slow to establish its liability branches in the early years of its transition to becoming an SFB due to lower profitability and the slowdown caused by the COVID-19 pandemic. But in the past three years, it has made significant strides in growing its CASA and retail deposits. Despite competitive market, JSFB has managed to grow its total deposits by a CAGR of ~27% in FY22-Q3FY25. In 9MFY25, the deposits grew by a strong 25% YoY, with CASA and term deposits growing by 22% and 25% YoY respectively. JSFB's deposit profile consists of CASA (18% share), term deposit (47% share) and bulk term deposit (35% share). Non-callable forms ~61% of Bulk Deposit and 90% of bulk deposits are contracted at 1 year and above.

**Exhibit 24: Deposit profile**




Source: Company, Nuvama Wealth Research

**Exhibit 25: Share of CASA decline is in-line with industry trend (%)**

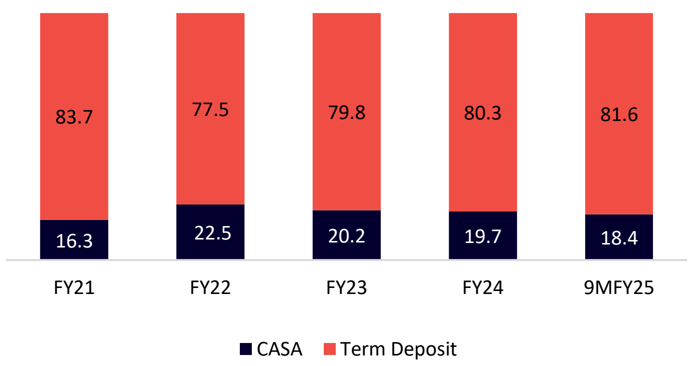
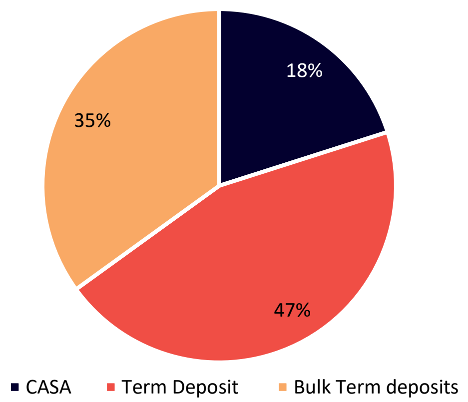



**Exhibit 26: Deposit base as of 9MFY25**




Source: Company, Nuvama Wealth Research

**Key strategies which played a catalytic role in deposit growth**

i) **Optimisation of its branch network:** Around 39 branches were opened in FY24. In FY25 till date, 22 branches have been opened (excluding BC operated outlets). CASA and total deposits have grown with an increasing vintage of branches. Branch with a vintage of over five years have an average deposit book of ~INR105cr per branch versus INR5–15cr for those with a vintage of one to five years.

ii) **Product innovation and launch of key segments:** Recently, JSFB launched 'Legend', a senior citizen account that pays a monthly interest to senior citizens. It also launched NRI accounts and liquid plus fixed deposit, an innovative short-term deposit offering a combination of liquidity and assured returns. These products have been garnering good traction, leading to a build-up in CASA.

iii) **Employee productivity**: Initiatives taken to improve staff productivity have enabled total deposits per employee to improve on consistent basis. Per employee deposits currently stands at INR 1.04crs as of Q3FY25 from INR0.95cr in Q3FY24.

iv) **Improvement in the digital ecosystem**: JSFB's mobile app has garnered 10lk downloads, with nearly 5lk active customers. It has added new functionalities including GST, EMI, and tax payments and reward programmes.

JSFB's CASA ratio has been lower compared to peers as it was initially slow in establishing liability branches after becoming a SFB due to lower profitability, slower branch expansion, and the slowdown caused by the COVID-19 pandemic. Higher competition from larger bank along with the JSFBs greater reliance on term deposits which offer greater funding stability as compared to CASA have caused the CASA ratio to moderate in the last three years. For Q3FY25, the CASA ratio further moderated to 18% from 20% QoQ in Q2FY25 led by a 36bp QoQ reduction in the cost of CASA deposits to 4.4%. Nevertheless, the management's focus is on CASA mobilisation and garnering more granular deposits. Its ability to garner deposits while reducing the spread with its peers will be a key monitorable over the medium to long term.

**Exhibit 27: Decline in the cost of CASA deposits led CASA ratio to moderate**

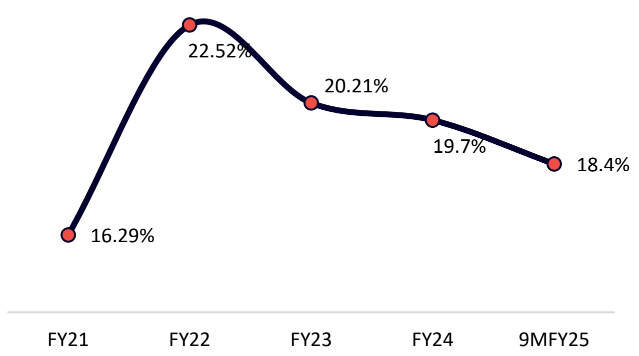
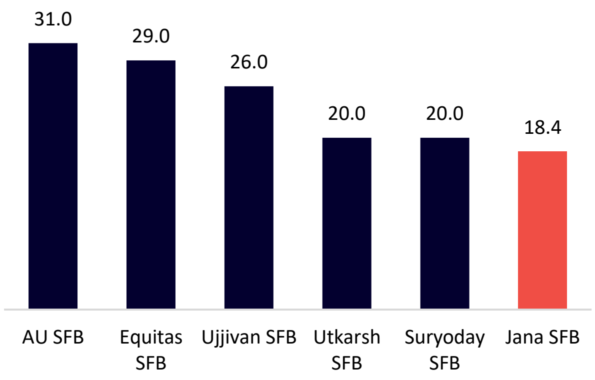



**Exhibit 28: CASA ratio vis-à-vis its peers (%)**




Source: Company, Nuvama Wealth Research

JSFB's overall funding comprises deposits/borrowings of ~87%/~13%. Its borrowings are majorly re-financed from institutions like NABARD, SIDBI, NHB, and Mudra, followed by Tier II capital. The bank will continue to borrow from re-finance institutions on account of better availability of rates, and improvement of Asset Liability Management (ALM) as it provides long-term funding. Additionally, the borrowings from these institutions are exempt from CRR and SLR requirements.

**Exhibit 29: JSFB's funding profile (% share of IBL)**

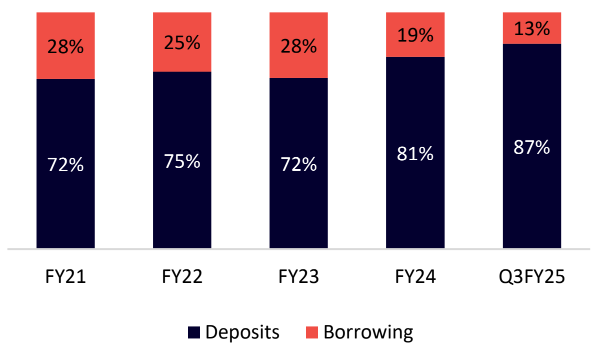
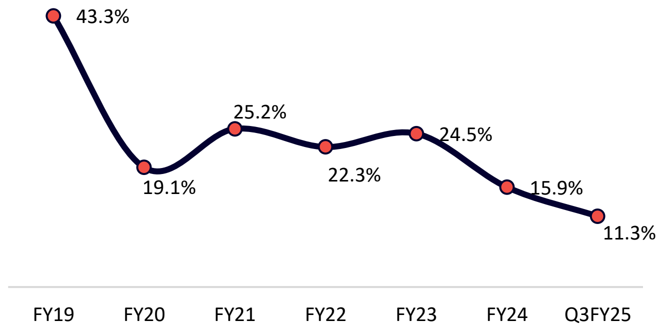



**Exhibit 30: Total borrowings to total assets**




Source: Company, Nuvama Wealth Research

**Favourable liquidity and capital position**

A higher liquidity coverage ratio (LCR) ensures sufficient head room for growth which can be directed to better yielding assets. JSFB's LCR stands at 279% (as of Q3FY25), which is the highest and above its peer average of 130–140%. The management plans to gradually pare it down to optimise its cost of funds. In this regard, JSFB launched new products aimed at increasing retail granular deposits which will help in bringing its LCR down.

JSFB's capital ratios were constrained prior to FY23 and were just above the minimum regulatory capital ratio of 15%. However, total capital adequacy ratio improved to 20.3% in FY24 from 15.57% in FY23, aided by a total capital infusion of INR1,137.2cr in FY24 (INR562cr in Q1, pre-IPO placement of INR113.2cr and IPO of INR462cr in Q4), leading to a higher accretion to reserves. In 9MFY25, total capital adequacy stood at 18.8% with Tier I at 17.8%.

**Exhibit 31: LCR is the highest among its peers (as of Q3FY25)**

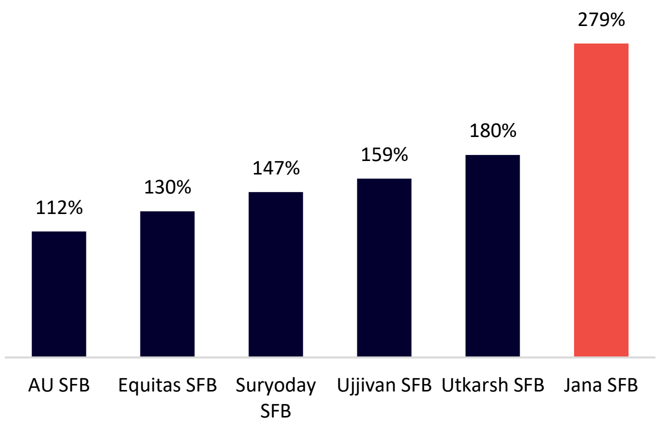
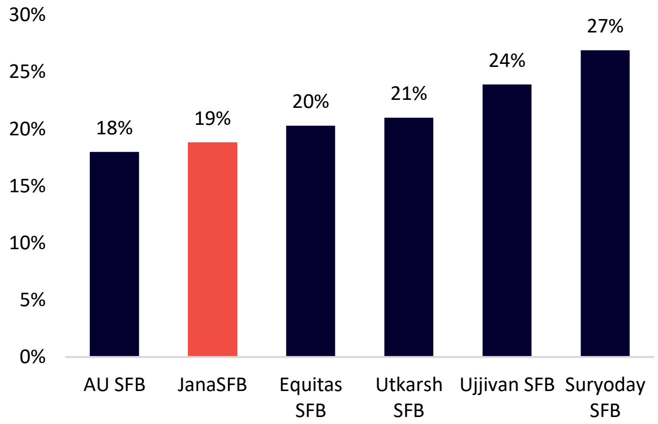



**Exhibit 32: JSFB's CRAR stands at a comfortable level (as of Q3FY25)**




Source: Company, Nuvama Wealth Research

**Credit-to-deposit ratio though elevated is gradually normalising**

Given the increasing pace of deposit mobilisation, the bank's CD ratio has started normalising. It fell to 103% in December 2024 from 148% in FY19. The sequential rise in the CD ratio in Q3FY25 was due to an unexpected surge in overdrafts against fixed deposits (ODFD) which have now been paid down. Notwithstanding this significant jump, JSFB's CD ratio would have been 98–99% in Q3FY25. However, it is still elevated when compared to the industry as well as its banking peers. We expect the CD ratio to moderate as the management's focus is on growing its deposit franchise aggressively.

**Exhibit 33: CD ratio is gradually moderating**

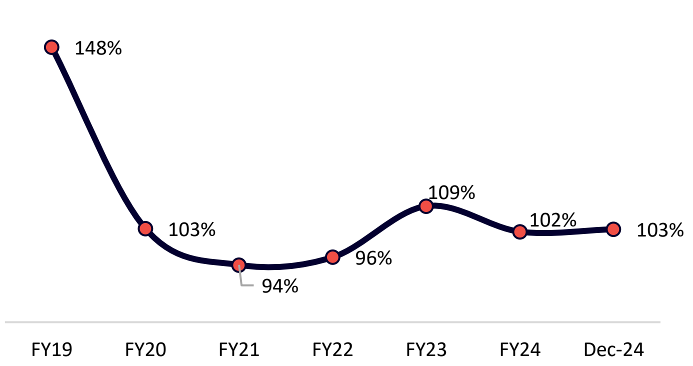
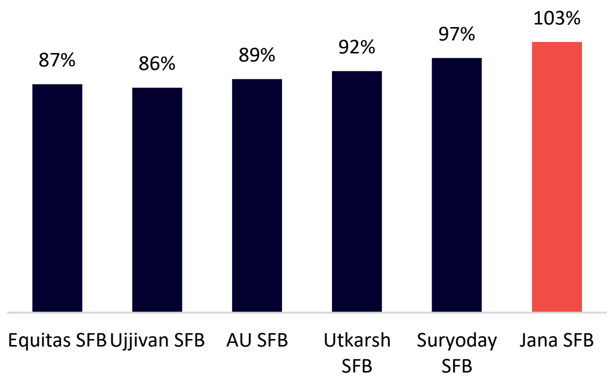



**Exhibit 34: …but is relatively higher vis-à-vis its peers**

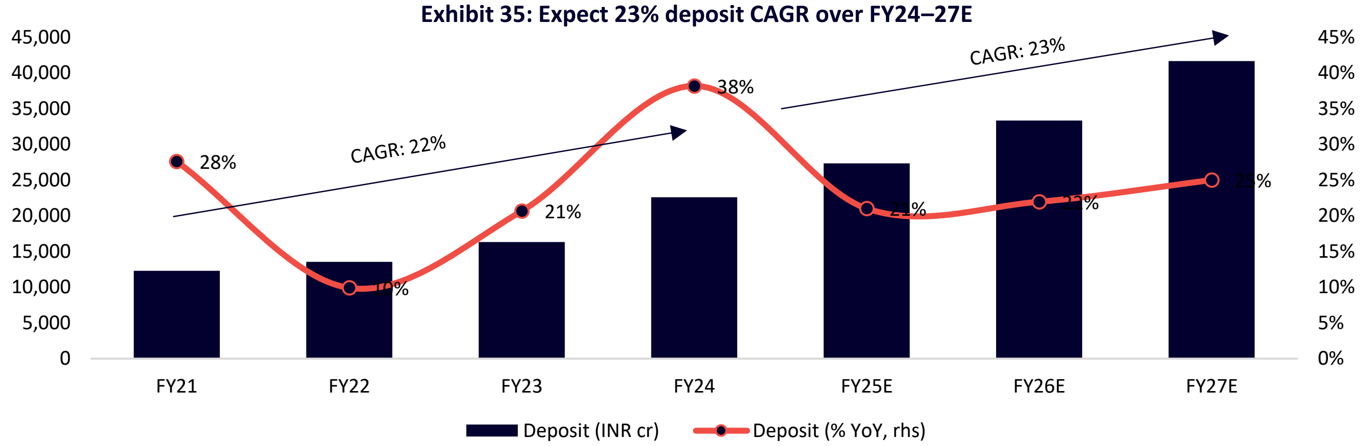



Source: Company, Nuvama Wealth Research

**Outlook: Focus to be on strengthening the deposit franchise**

JSFB has been actively working to strengthen its deposit franchise by focusing on CASA growth, retail deposit mobilization, digital banking, customer engagement strategies and boosting its presence in untapped markets. Accordingly, we expect deposits to register 23% CAGR over FY24–27E.

**Exhibit 35: Expect 23% deposit CAGR over FY24–27E**



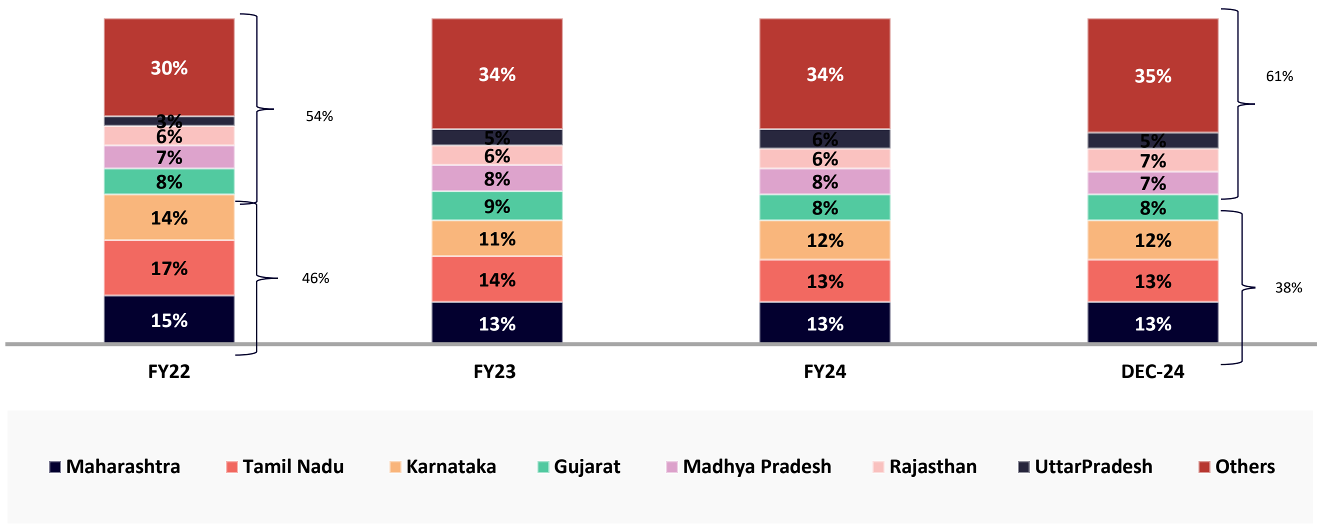

Source: Company, Nuvama Wealth Research

## III. Steady de-risking combined with strategic diversification

In addition to de-risking its portfolio by shifting to secured from unsecured lending, JSFB has strategically been reducing its geographical concentration across states. It is one of the least concentrated SFBs, spread across 22 states and two Union Territories covering ~180 cities, with no single state contributing more than 13% to its loan and deposit mix. The share of the top three states — Karnataka, Maharashtra, and Tamil Nadu — in total AUM fell to 38% in 9MFY25 from 46% in FY22. In contrast, the share of the remaining regions across India rose to 61% in 9MFY25 from 54% in FY22.

**Minimal geographic concentration risk on the asset and liabilities front**

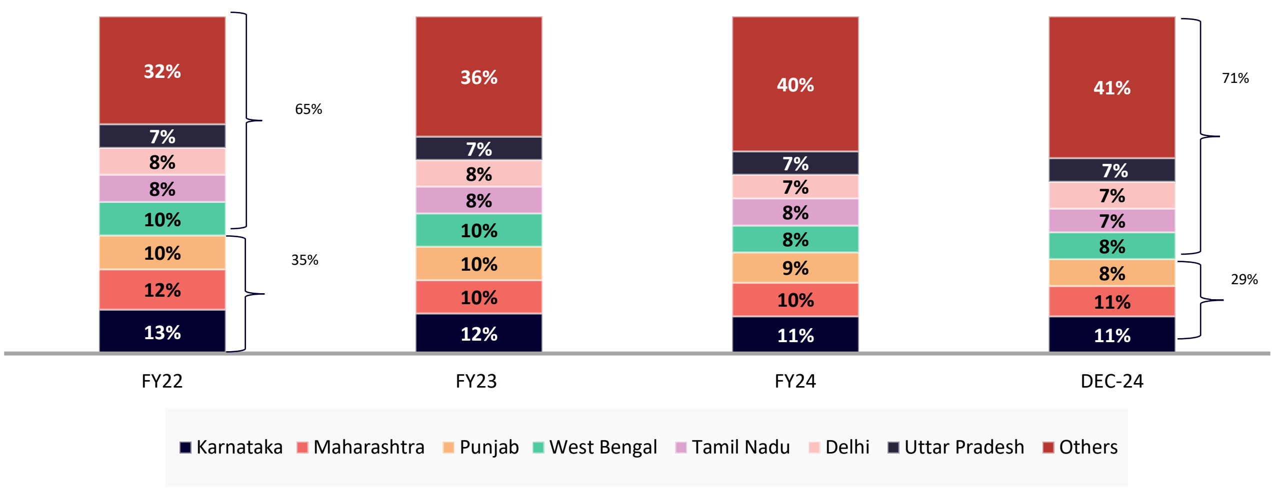
**Exhibit 36: Gerographical presence in terms of AUM (%)**




Source: Company, Nuvama Wealth Research

On the deposit front, the share of the top three states — Karnataka, Maharashtra and Punjab — fell to 29% as of 9MFY25 from 35% in FY22 while that of other regions grew to 71% from 65%. The bank has successfully reduced its dependency on a limited number of states while fostering growth in new geographies. This shift is in alignment with the bank's branch expansion strategy, demonstrating a clear pan-India presence in its business operations.

**Exhibit 37: Gerographical presence in terms of Liabilities (%)**




Source: Company, Nuvama Wealth Research

## IV. GNPA from peak to pristine, the key lies in stability

**Strategies adopted by the bank to slash NPAs in the past**

In the aftermath of demonetisation and the COVID-19 pandemic, JSFB's asset quality deteriorated significantly. However, the management successfully pared down the GNPA/ NNPA ratios to 2.7%/0.9% as on end December 2024 from its peak of 6.7%/4.8% in FY21 by employing a variety of strategies to address asset quality concerns and improve its overall financial health. These strategies involved:

i) **Sale of bad assets**: It had been engaging in Asset Reconstruction Company (ARC) transactions, wherein it sold NPA assets to ARCs worth INR 1800cr, which led to a reduction in NPAs. Out of this, recoveries made were INR 550cr. The net book value of the security receipts (SR) currenlty stands at INR540cr.

ii) **Restructuring and recovery of loans**: The bank implemented loan restructuring for borrowers facing temporary financial challenges. By offering flexible repayment options, it helped reduce the number of defaults. It also pursued aggressive recovery actions through legal routes and partnerships with recovery agencies to recover bad loans.

iii) **Focused collection strategies**: JSFB enhanced its collection practices, ensuring a strong approach to recovering overdue loans. JSFB's collection team consists of 750 employees in the secured segment and 2800 employees in the unsecured segment.

iv) **Improved risk management**: The bank fine-tuned its lending practices to better assess the creditworthiness of borrowers. These involved using sophisticated credit scoring models and enhanced due diligence.

v) **Strengthened its governance and internal controls** which included reviewing credit policies, improving loan origination processes, and rigorous monitoring of loan accounts.

vi) **Increased focus on secured lending**: Shifting to a more secured lending has also helped reduce the risk of defaults.

**The current landscape**

Over the past three quarters, MFIs have been facing challenges, with overleveraging being the primary concern. Many borrowers, burdened with excessive debt from multiple lenders, are facing repayment difficulties. This got reflected in the asset quality of MFIs. JSFB's asset quality also faced the brunt of stress in this segment, leading to a marginal rise in overall GNPA/NNPA in FY25 so far. In Q3FY25, GNPA/NNPA rose to 2.7%/0.91% from 2%/0.5% in FY24. However, on a positive note the stress seems to have peaked out in its microfinance vertical which is evident from the sequential improvement (down 15bp/4bp) in GNPA/NNPA in Q3FY25. The bank has thus been able to showcase better asset quality metrics as compared to its peers amid a challenging macro environment.

**Exhibit 38: Easing MFI stress leads to a slight sequential GNPA improvement in Q3FY25.**

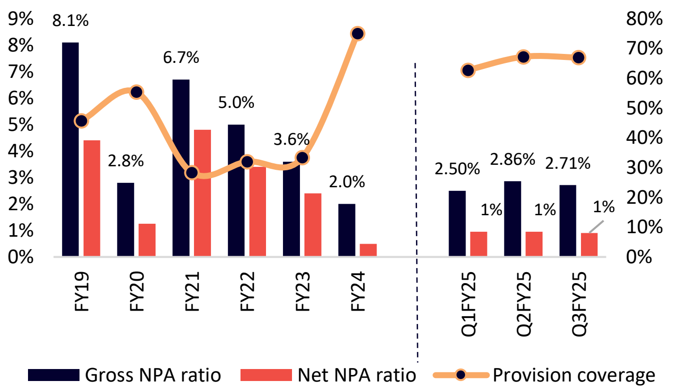
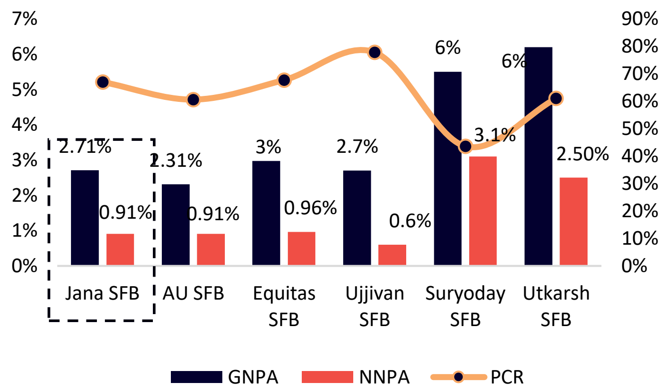



**Exhibit 39: Asset quality vis-a-vis peers (as of Q3FY25)**




Source: Company, Nuvama Wealth Research

Overall PCR stood at 67% in Q3FY25, with the secured/unsecured portfolio at 48%/86%. With the peaking out of challenges for the JSFB's MFI segment, its regulatory provisions fell to INR81cr in Q3FY25 from INR149cr QoQ. However, accelerated provisions were risen to INR93cr in Q3FY25 from INR61cr QoQ as the management intends to keep its NPA levels below 1% as it plans to apply for a universal banking licence in Q1FY26. Total provisions (regulatory + accelerated) in Q3FY25 fell to INR174cr from INR210cr QoQ, leading credit cost to moderate by ~80bp QoQ to 2.6% in Q3FY25.

At the industry level, moderation in individual cash flows and overleveraging in the unsecured segment have kept credit costs for SFBs at elevated levels in FY25 till date. We anticipate credit cost for SFBs to stay in 3–8% range for FY25 (vs ~2% in FY24) which will lead to substantial contraction in overall profitability. We believe overall credit cost to moderate from FY26 for Jana as well other SFBs.

**Exhibit 40: Credit cost ebbs in Q3FY25**

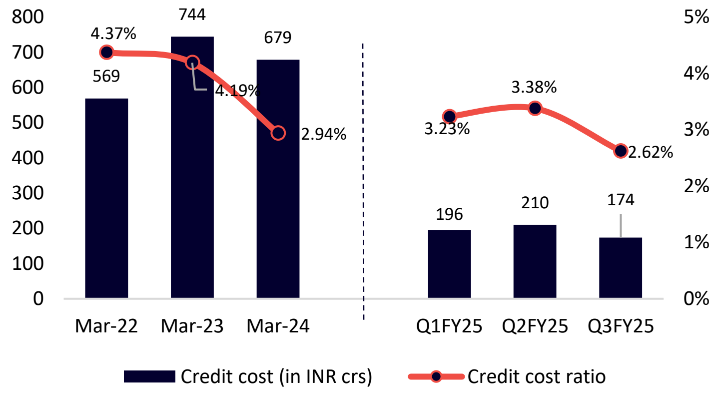
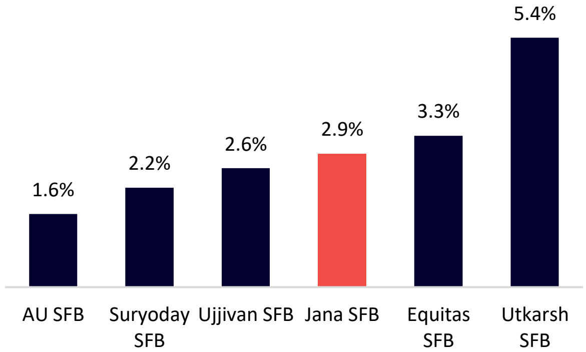


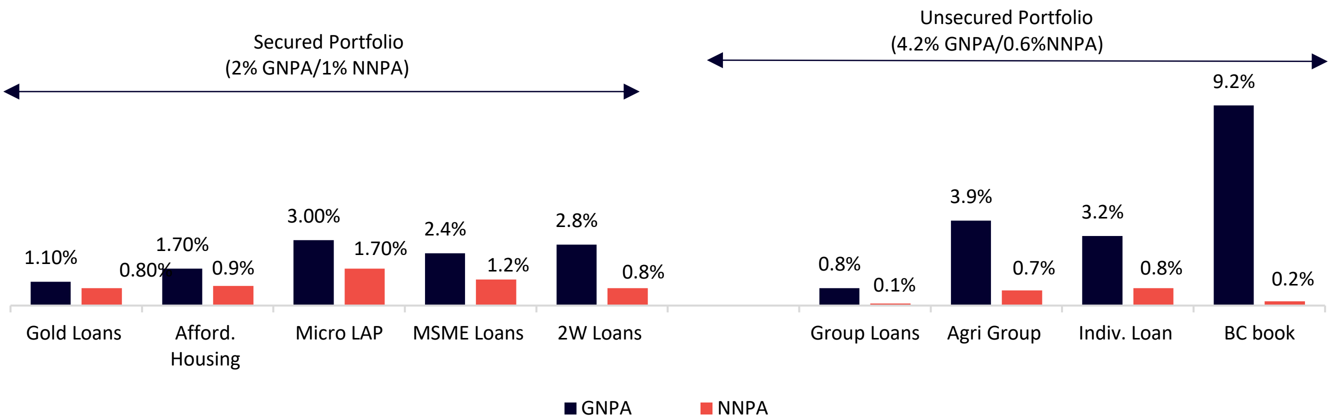

**Exhibit 41: Annualised credit cost vs. peers (9MFY25)**




Source: Company, Nuvama Wealth Research

While asset quality in JSFB's secured portfolio is stable, stress is seen in its unsecured portfolio, especially within its BC book. GNPA of the BC book stands at 9.2% as against 4.2% for the overall unsecured portfolio. Earlier, the bank used to rely on BCs to expand its reach in areas where maintaining traditional branches was not feasible. Due to the elevated stress in the BC book, it has now significantly reduced sourcing through BCs and has strategically reassigned senior collection resources to aid BC operations. In addition to maintaining a high PCR of ~98%, it has implemented additional service guarantees on the disbursed amounts. As the bank gradually shifts to secured from unsecured lending, its growth trajectory is unlikely to be majorly impacted by challenges in the unsecured portfolio.

**Exhibit 42: Delinquencies in the BC book remains the highest in Q3FY25**




Source: Company, Nuvama Wealth Research

**Robust underwriting mechanisms**

JSFB has a strong credit assessment and evaluation process. Its credit decision for unsecured loans is mostly automated to significantly reduce human error and standardise the credit assessment procedure. For secured loans, its detailed collateral valuation mechanism is overseen by an in-house central valuation expert who ensures that the value of collateral is accurate and up to date. The bank has a separate risk organisation and collection vertical. It has an operational governance policy, a defined risk appetite framework, co-borrower checks, and geographical limits on advances to reduce state-wide concentration risk.

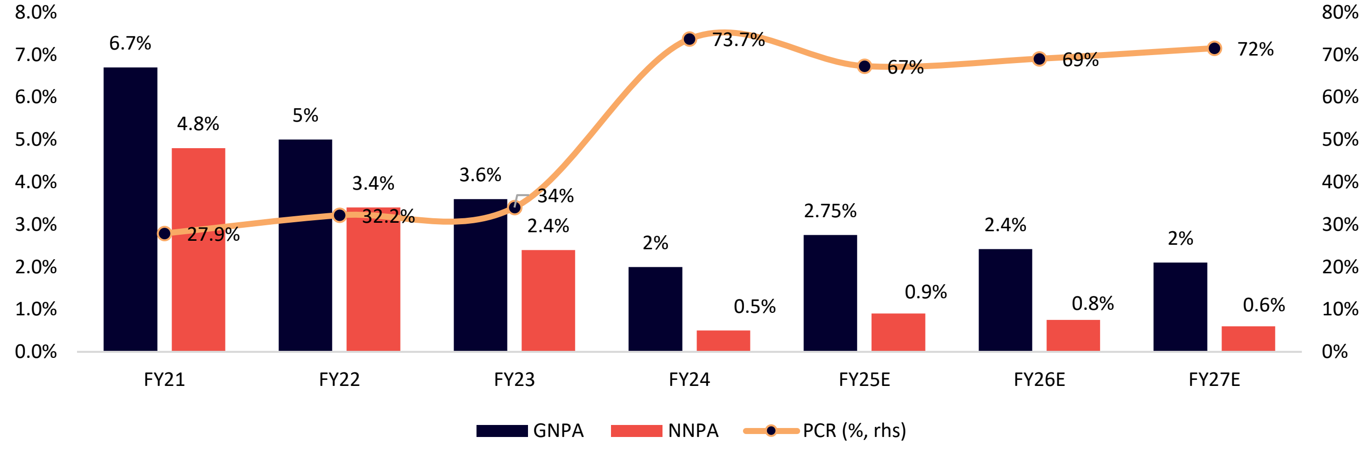
The bank has developed product-specific scorecards for all its businesses to analytically track and enhance its sourcing processes. In addition to these customised scorecards, it incorporates credit bureau scores and data from CRIF High Mark Credit Information Services Pvt and the Credit Information Bureau (India), or CIBIL, across all businesses. To mitigate the risk of inconsistent credit standards in a decentralised credit decision-making structure, the bank has established a centralised credit underwriting unit responsible for approving secured loans up to INR25lk.

In addition to scorecards, JSFB has robust portfolio analytics and reporting systems. Many of these were implemented with the help of a data warehouse. This data warehouse is powered by a team of 30–40 professionals, including analysts and portfolio analysts, who analyse and interpret data. Every month, the bank produces a comprehensive report that provides insights into new originations, their quality, portfolio segmentation, and delinquency rates for each segment, along with cohort-wise analysis. These controls help fine tune the portfolios and decision-making processes.

**Outlook: Asset Quality to rebound after temporary setback in MFI segment**

Management believes the stress to have peaked for JSFB and expects the asset quality to remain stable hereon, driven by a shift towards secured lending, strong underwriting mechanism, guarantee programs undertaken for unsecured loans, reduced dependence on BC channels along with a shift towards individual loans from group loans. This is already visible in Q3FY25, where JSFB was able to manage asset quality metrics better than its peers amid a challenging environment. However, we shall continue to keep a close watch on asset quality, particularly in the microfinance space, until there is a meaningful turnaround visible at the system level.

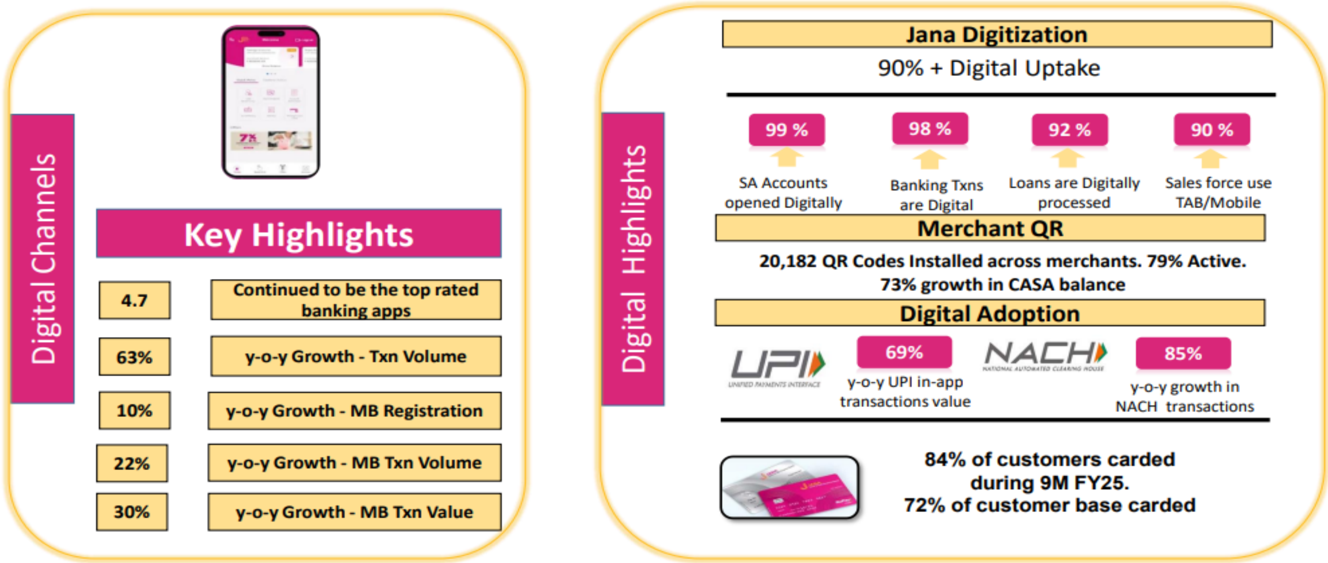
**Exhibit 43: Asset quality to improve with easing stress in MFI segment for JSFB**




Source: Company, Nuvama Wealth Research

## V. A new age digital bank

Its core banking operations are supported by integrated multi-channel systems and back-end processes. Automation of its core banking and credit underwriting for various asset products ensures quick processing of loan applications. The bank offers a range of digital products, services, and platforms including mobile and internet banking. It has implemented technology solutions for cashless loan disbursements. Its collections are largely digitised through mobile applications. In addition to standard digital payment services, it offers a UPI QR code-based EMI payment system. Its liability products include a digital self-onboarding process, and an assisted digital onboarding option tailored to customer preferences and segments. Both account opening and loan underwriting are digital, with technology supporting underwriting and credit approvals based on credit bureau inputs and customer data analytics. So far, the bank's mobile app has seen 10lk downloads with ~5lk active customers. Given its user-friendly interface, its mobile app is one of the top-rated banking apps.




Source: Company, Nuvama Wealth Research

Overall, we believe that advancement in digital ecosystem will gradually result in lower operating costs, higher loan processing efficiency, and better customer engagement. This shift toward digital channels will strengthen the bank's ability to scale operations without a significant rise in costs, thereby improving profitability and customer satisfaction.

## VI. Profitability metrics: MFI segment weighs on earnings, but future looks promising

**Stress in MFI segment to weigh on profits, however FY26 expected to see a turnaround**

JSFB's strategic shift towards secured lending has marginally impacted yields on advances as share of the high-yielding microfinance book has been moderating and currently stands at 32%. Over the past one year, the yield on advances has moderated by 40bps YoY to 14.1% (annualized calculated) in Q3FY25.

In the current competitive environment and to meet incremental funding, JSFB raised its share of non-callable deposits (61% of bulk deposits) by offering a higher interest rate. As a result, the cost of funds has been slightly higher vis-à-vis other SFBs. However, recently the cost of CASA deposits was adjusted lower to 4.4% in Q3FY25 from 4.8% QoQ to curb the accumulation of expensive CASA which was not ideal for retention. With this move, the management managed to cut its cost of funds by 10bp QoQ to 8% (calculated annualised). It aims to further pare down its cost of funds by increasing the share of granular and retail deposits on a sustained basis. LCR at 279% is also above its peer average of 130–140%. The bank is planning to reduce its LCR gradually which will also help optimise its cost of funds. In addition, The RBI's recent decision to restore risk weights on bank lending to NBFCs & MFIs from 125% to 100% will also help bring down cost of funds for JSFB.

**Exhibit 44: Trend in yields (cal.)**

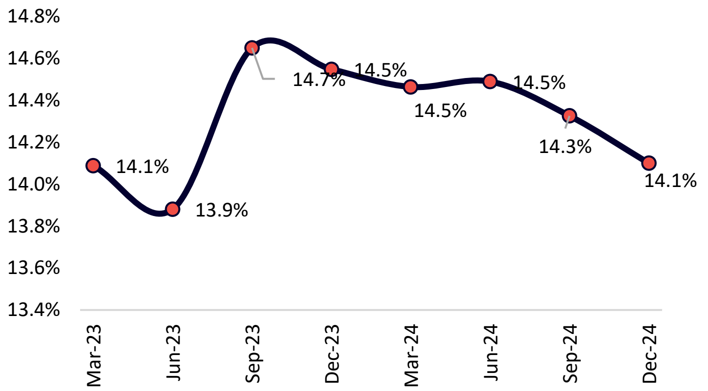
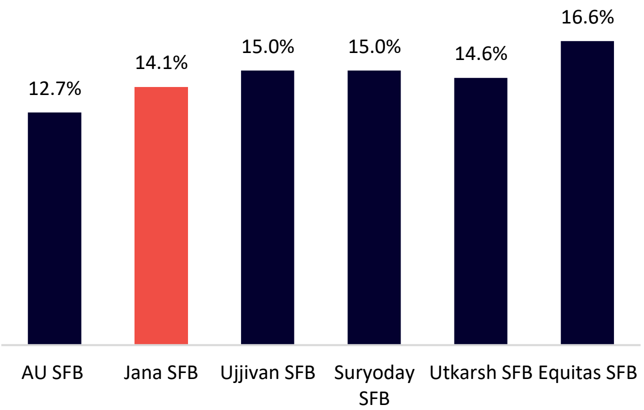



**Exhibit 45: Yield on IEA vis-à-vis peers**




Source: Company, Nuvama Wealth Research

**Exhibit 46: Cost of funds (cal.)**

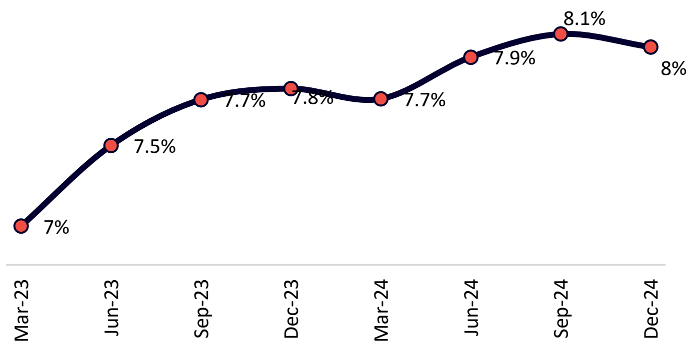
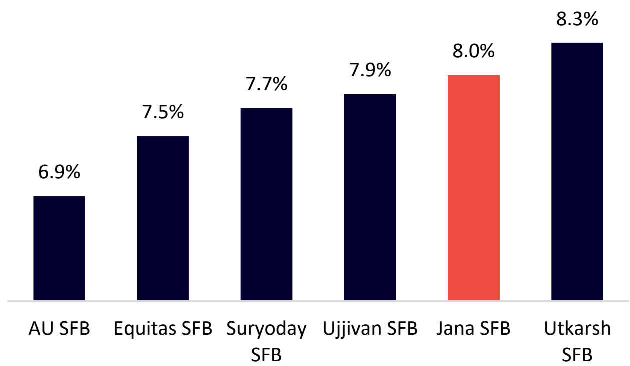



**Exhibit 47: Cost of funds (IBL) vis-à-vis peers**




Source: Company, Nuvama Wealth Research

Moderation in yields, degrowth in the microfinance book for a second consecutive quarter and lower CASA mobilization led to a 20bp QoQ compression in NIM to 7.1% in Q3FY25 (calculated annualised). While there can be some pressure on NIM as it moves towards a secured lending, the management believes it will be somewhat cushioned by a concomitant growth in CASA deposits. We anticipate a slight dip in NIM between FY24 and FY27E due to change in the portfolio mix towards secured loans.

**Exhibit 48: NIM compression likely to be cushioned by higher CASA mobilisation**

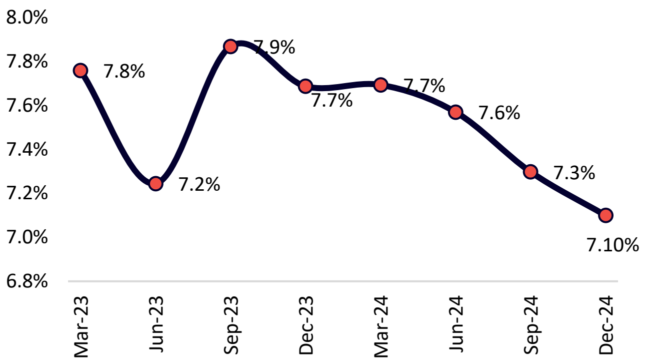
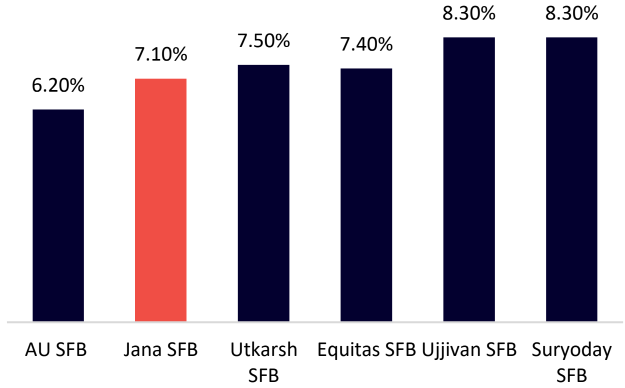
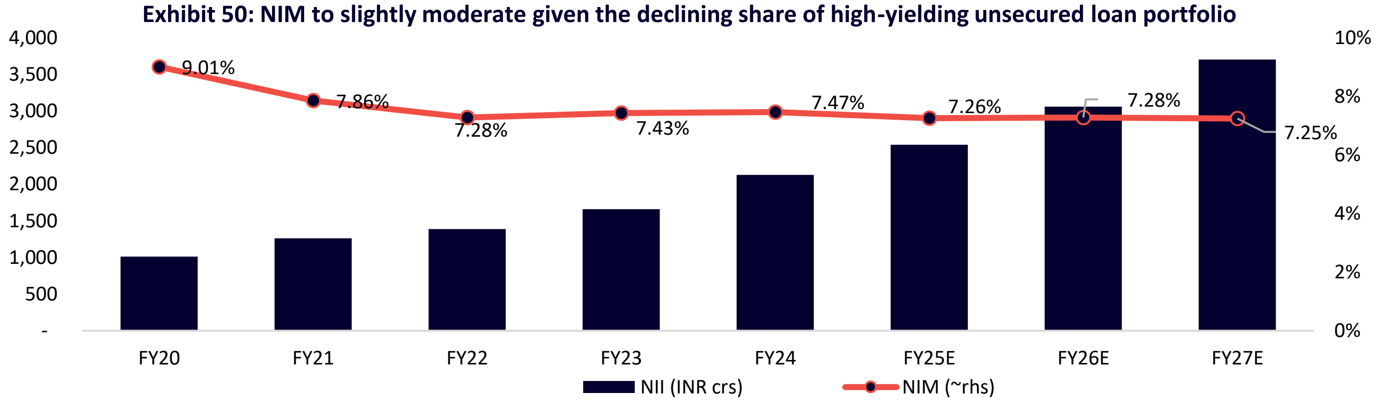



**Exhibit: NIM viz-à-viz peers**




Source: Company, Nuvama Wealth Research

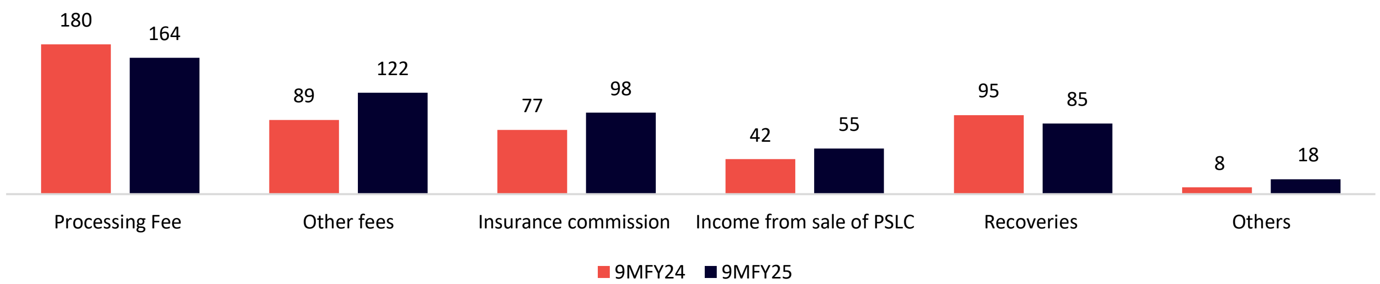
**Exhibit 50: NIM to slightly moderate given the declining share of high-yielding unsecured loan portfolio**




Source: Company, Nuvama Wealth Research

Other income, which comprises of processing fee, insurance commission, income from priority sector lending certificates (PSLCs), and recoveries, has been range bound for the past couple of quarters. With a drop in disbursements for unsecured loans, processing fee registered a dip. Total recoveries were lower YoY in 9MFY25. However, there was a sequential improvement in recoveries in Q3FY25. Recoveries in Q4FY25 are expected to stay healthy as collection efficiency stands at 98–99%. Other fee income, revenue from the sale of PSLCs, and income from insurance commission stood strong in FY25 so far. Beyond FY25, other income is expected to see a steady growth supported by fee income amid gradual pick-up in disbursements, likely improvement in recoveries and some benefit arising from sale of PSL certificates (with PSL requirements reducing from 75% to 40%) after universal bank conversion.

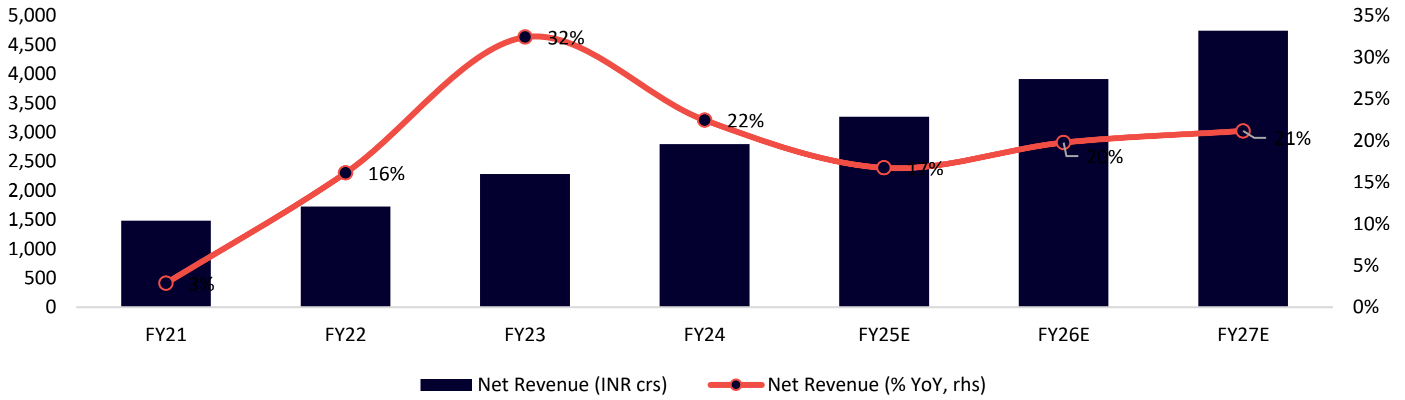
**Exhibit 51: Other income trend (INR cr)**




Source: Company, Nuvama Wealth Research

While net revenue is likely to stay sluggish in FY25 due to higher NIM contraction and moderation in other income, it is seen to be improving in FY26E and FY27E aided by pick up in other income (led by better recoveries, income from third party product sales, and income from PSLCs sales) along with a steady improvement in NII. We expect 19% revenue CAGR over FY24–27E.

**Exhibit 52: Expect net revenue CAGR of 19% over FY24–27E**




Source: Company, Nuvama Wealth Research

Increase in the operating expenses in FY25 so far was primarily led by higher collection costs and marketing expenses causing C/I ratio to increase to 64% in Q3FY25 from 61% QoQ. With growth in the unsecured book stabilising, collection costs gradually normalizing and net revenue (denominator) improving, we believe cost-to-income ratio to moderate. However, opex growth remains aligned with the AUM growth and the shift towards secured lending (housing, MSME, gold loans) will help improve operating efficiency in the long run. With an expected improvement in revenue and better cost management, the C/I ratio is likely to settle ~59% by FY27. In the longer term, the management aims to pare the C/I ratio down to ~55%.

**Exhibit 53: C/I ratio inches up but may moderate aided by cost management and rise in revenue**

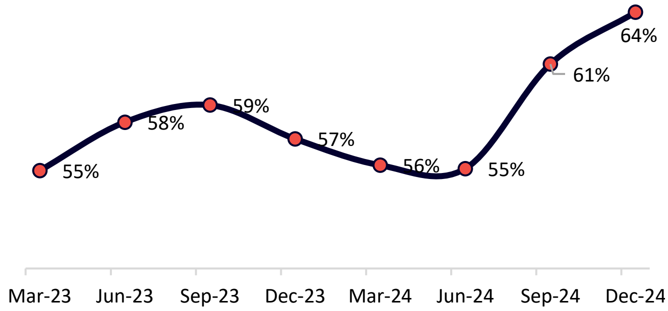
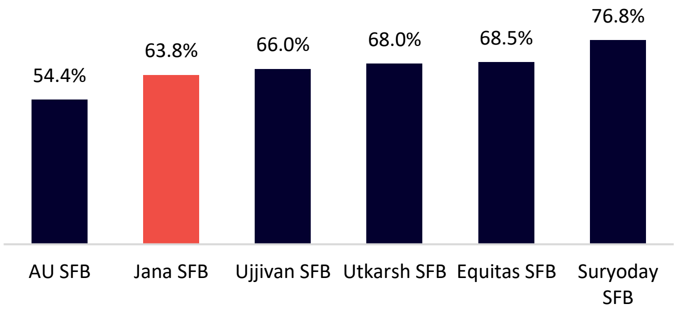
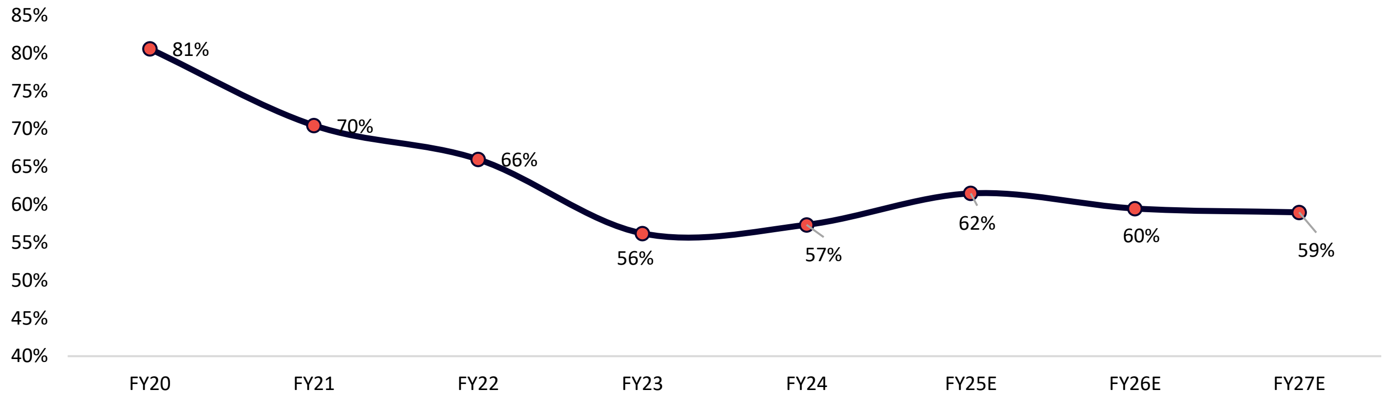



**Exhibit 54: C/I ratio vis-a-vis peers**




Source: Company, Nuvama Wealth Research

**Exhibit 55: Expect C/I ratio to ease aided by better cost management**




Source: Company, Nuvama Wealth Research

The COVID-19 pandemic had led to a sharp rise in NPA formation in the MFI segment as the collection efficiency had dropped during lockdown forcing the bank to increase its provisions on unsecured loans during FY21-FY23. However, with JSFB reducing reliance on unsecured MFI segment and shifting its focus towards secured lending there has been a steady improvement in its credit cost post then. While the current stress in MFI sector persists it has been gradually peaking out at the bank level which has led the credit cost to moderate to 2.6% in Q3FY25 from 3.4% QoQ. In absolute terms, total provisions fell to INR174cr in Q3FY25 from INR210cr QoQ. For FY25, we expect credit cost to stay elevated at ~3%; however, credit cost for other SFBs is expected to remain elevated. For FY26E/FY27E we expect credit cost to ease to 2.8%/2.6% on signs of moderating stress in the microfinance space for JSFB and robust collection efficiencies.

**Exhibit 56: Credit cost improves sequentially**

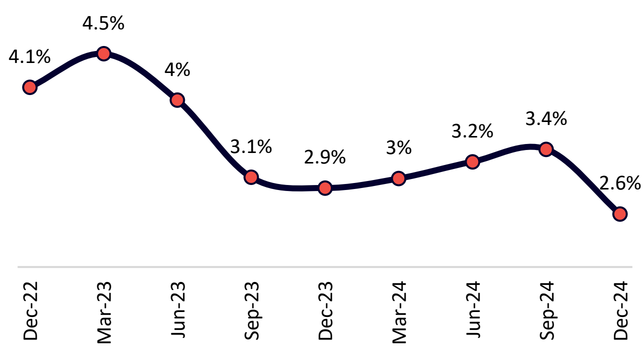
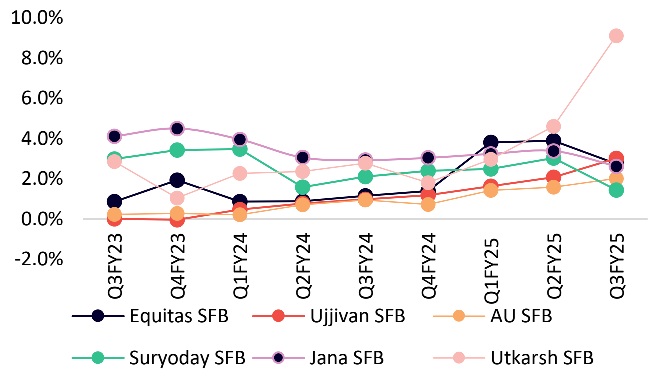



**Exhibit 57: Trend in credit cost for SFBs**




Source: Company, Nuvama Wealth Research

Moderation in credit cost led profit before tax to rise by 18% QoQ to INR105cr in Q3FY25. DTA worth INR5cr was considered in Q3FY25. Lower provisioning and marginal impact of DTAs caused PAT to rise 14% QoQ to INR111cr causing RoA/RoE (calculated) to improve to 1.3%/11.3% (annualised) in Q3FY25 from 1.2%/10.2% QoQ (annualised).

It is pertinent to note that the bank has a balance DTA of INR ~735crs, which is not yet recognized and available for set-off against profit before tax till FY27. Hence, JSFB is unlikely to pay any tax till FY27. For FY25, we expect ROA/ROE to be 1.5%/13.5% (assuming no DTA consideration beyond INR 24crs which is taken in 9MFY25) vs. 2.4%/25% respectively in FY24 (considering DTA of Rs. 155 crores for FY24). For FY26E/FY27E we expect ROA/ROE to be in the range of 1.7%-1.9%/16%-18% respectively. Beyond FY27, with tax expenses kicking in, some normalization in the return ratios is expected.

**Exhibit 58: RoA improves sequentially**

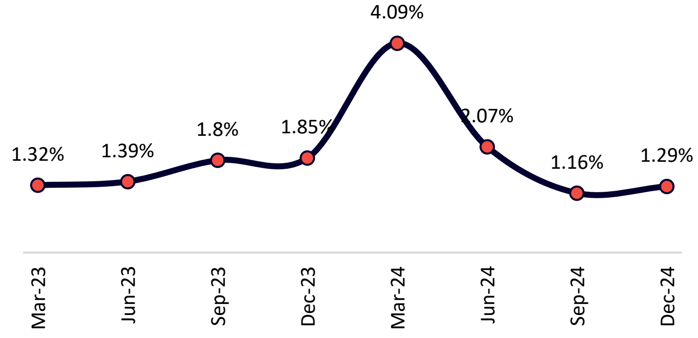
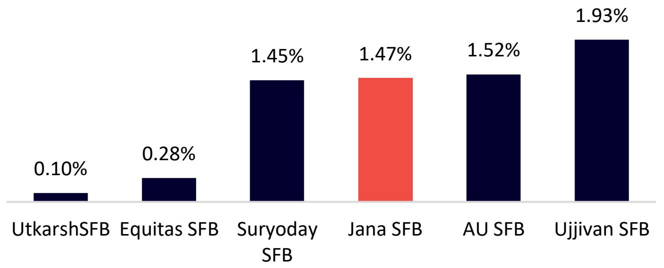



**Exhibit 59: ROA vs. peers (cal, annualised 9MFY25)**




Source: Company, Nuvama Wealth Research

**Exhibit 60: RoE improves sequentially**

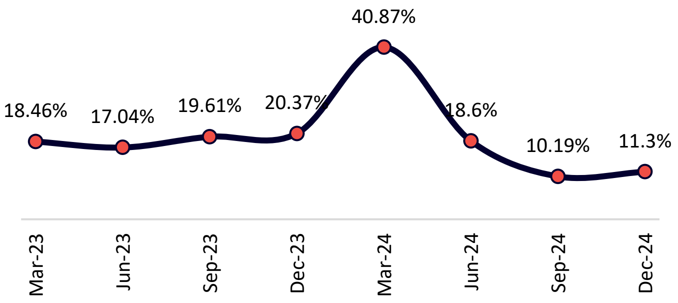



**Exhibit 61: ROE vs peers (cal. annualised 9MFY25)**

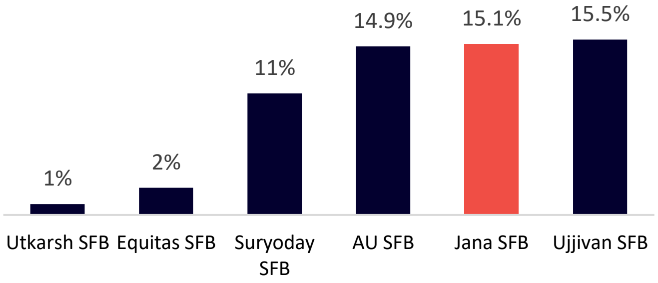
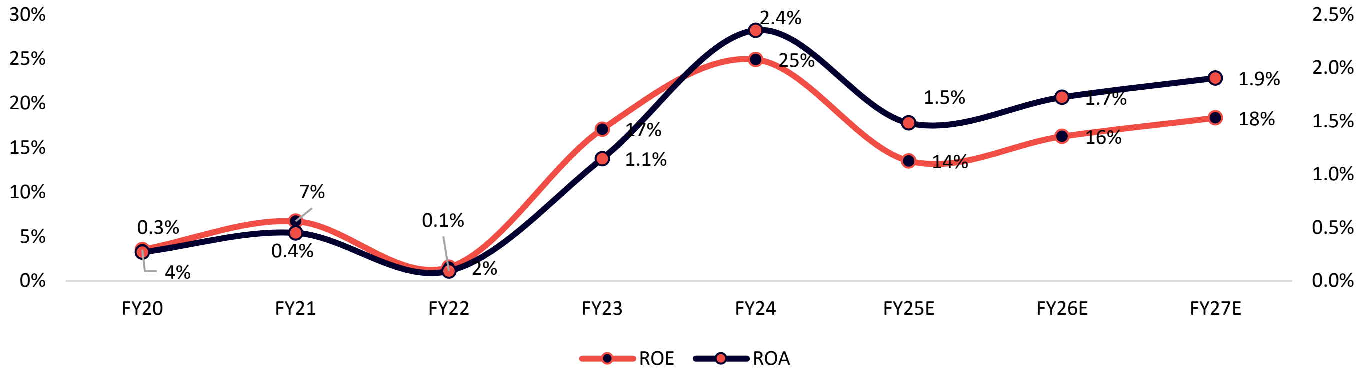



**Exhibit 62: Expect return ratios to stabilise after a marginal dip in FY25**




Source: Company, Nuvama Wealth Research

**Growth catalysts beyond FY27**

JSFB expects several factors to mitigate the impact of tax expenses on its return ratios. These include: i) a reduction in overall deposit cost as the bank expands its low-cost CASA base and narrows the cost gap with its peers; ii) improved productivity and increased digitisation, which should lead to a moderation in the C/I ratio; iii) the transformation of its loan portfolio to secured from unsecured, which is expected to result in lower steady-state credit cost compared to current levels.

## Valuation and View

### Industry view

At the industry level, segmental diversification has become a central growth strategy for most SFBs. Originally established as microfinance lenders, these SFBs have over time expanded into secured asset classes such as loans against property, housing loans, and vehicle loans to mitigate potential volatility in asset quality and earnings.

The increasing proportion of secured asset classes, which typically offer a lower yield (compa red to an unsecured loan), is likely to exert pressure on NIMs for almost all SFBs. Additionally, microfinance and unsecured personal loans, which are reeling under some stress due to higher borrower indebtedness, have been experiencing a decline in portfolio quality. Certain sub-segments within secured asset classes, which partly serve a similar customer base, are also facing higher delinquencies. This has led to a rise in overall credit cost for SFBs in FY25 so far adversely impacting the profitability of these SFBs.

Since SFBs cater to relatively vulnerable customer segments, delinquencies and credit costs tend to rise during periods of economic stress (like the COVID-19 pandemic). RoA for these SFBs can take a 50–60bp YoY hit amid a marginal NIM compression and higher credit costs in FY25. We expect the health of MFIs and MFIs led SFBs to gradually start improving from FY26. However, SFBs with a more diverse and secured portfolio are expected to bounce back faster as seen in the aftermath of the pandemic.

### Company view

A similar kind of narrative is expected to play out at JSFB. In the aftermath of demonetisation and the COVID-19 pandemic, the management strived to build a well-balanced and diversified portfolio and managed its asset quality metrics skilfully.

In FY24, JSFB achieved a significant improvement in RoA at 2.4% (calculated, including DTA consideration worth INR155cr) compared to an average 0.5% over FY20–23 and a loss in FY19. The bank is expected to maintain a healthy and balanced growth in advances, with a focus on secured assets, while keeping operational expenses under control. However, this shift towards secured lending may result in a moderation in margin. Stress in the microfinance segment in H1 is likely to keep credit cost elevated in FY25 after which it is likely to inch down.

Given the expected moderation in credit cost after FY25, JSFB is seen achieving a FY26/FY27 RoA/RoE in a 1.7-1.9%/16–18%. If we consider any DTAs write back, the return ratios will be marginally higher than estimated. Beyond FY27, once the DTA impact wanes, we expect RoA/RoE to slightly moderate. Given the projected credit growth rate of ~21% and the calculated RoA/RoE of 1.7-1.9%/16%-18%, we believe JSFB's risk-reward is attractive, over medium to long term. Valuing the stock at 1.1x FY27E ABV, we initiate coverage with a 'BUY' rating and TP of INR600, an upside of 43% from its CMP.

| As of 7th Apr, 2025 | CMP | CAGR FY24-FY27E (%) | | | | ROAE | | | | ROA | | | | P/ABV | | | | P/E | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | | Advances | Net Inc. | PPOP | PAT | FY24 | FY25 | FY26 | FY27 | FY24 | FY25 | FY26 | FY27 | FY24 | FY25 | FY26 | FY27 | FY24 | FY25 | FY26 | FY27 |
| AU Small Finance Bank Ltd. | 553 | 29% | 34% | 45% | 34% | 13.0 | 14.0 | 15.6 | 17.6 | 1.5 | 1.6 | 1.6 | 1.8 | 3.1 | 2.6 | 2.3 | 1.9 | 24.1 | 20.1 | 14.8 | 11.1 |
| Equitas Small Finance Bank Ltd. | 55 | 18% | 14% | 14% | 5% | 14.3 | 3.1 | 9.8 | 12.8 | 2 | 0.4 | 1.1 | 1.3 | 1.1 | 1.1 | 1.0 | 0.9 | 7.9 | 32.4 | 10.0 | 6.8 |
| Ujjivan Small Finance Bank Ltd. | 35 | 17% | 12% | 7% | -1% | 27.0 | 12.6 | 14.1 | 16.2 | 3.5 | 1.7 | 1.9 | 2.1 | 1.2 | 1.1 | 1.0 | 0.8 | 5.3 | 9.2 | 7.1 | 5.4 |
| Suryoday Small Finance Bank Ltd. | 109 | 21% | 20% | 13% | 14% | 12.7 | 9.1 | 11.6 | 13.2 | 1.9 | 1.3 | 1.5 | 1.6 | 0.7 | 0.7 | 0.6 | 0.5 | 5.4 | 6.7 | 4.7 | 3.6 |
| Jana Small Finance Bank Ltd. | 419 | 21% | 19% | 18% | 13% | 25.0 | 13.5 | 16.3 | 18.3 | 2.4 | 1.5 | 1.7 | 1.9 | 1.2 | 1.1 | 0.9 | 0.8 | 6.5 | 8.5 | 6.0 | 4.5 |

**Exhibit 63: Forward P/B ratio**

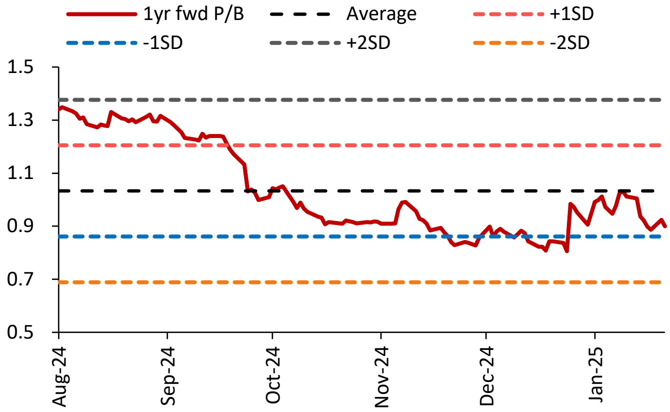
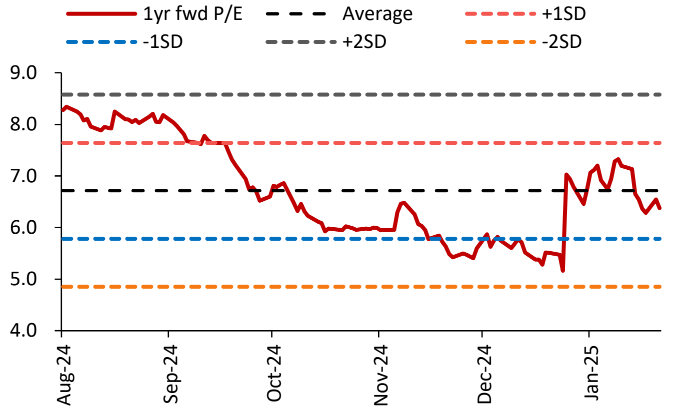



**Exhibit 64: Forward P/E ratio**




Source: Company, Nuvama Wealth Research

## Key risks

Higher defaults in the unsecured portfolio, especially within the BC book, can lead to higher GNPAs. There has been growing stress in the unsecured segment, particularly in microfinance. If regulators introduce stricter measures such as raising risk weights, or provision coverage, or require larger capital buffers, it can result in revisions to the bank's financial projections.

The bank's CD ratio, although showing some signs of moderation, is higher than that of its peers. If deposit growth does not align with loan growth, it can potentially limit its ability to sustain or expand its loan portfolio given the pressure from the regulator to maintain an optimal CD ratio. This imbalance may slow loan growth as JSFB may face difficulties in funding additional loans without a corresponding rise in deposit mobilisation. In that case, it may have to rely on more expensive sources of funding which can impact its profitability and financial stability.

SFBs are subject to inspections by multiple regulatory authorities (like the RBI, PFRDA, IRDAI, and the National Pension System Trust). Failure to comply with their directives can negatively impact its business, financials, operations, and cash flows.

Any slowdown in the economic environment may lead to a moderation in credit growth as product launches will be delayed. It will moderate fee income which will subdue earnings growth. The impact on asset quality will be a key monitorable in such scenarios as it affects credit costs and provisioning.

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## Management Details

The bank boasts of a highly experienced and diverse board. Many members have held senior positions at renowned financial institutions and banks, including the Reserve Bank of India (RBI). **Mr Ajay Kanwal, Managing Director and CEO**, has over 33 years of experience in the financial services sector. Prior to joining the bank in August 2017, he served as the Regional CEO for ASEAN and South Asia at Standard Chartered Bank in India and Singapore. The other key managerial personnel and senior management collectively have an average experience of 27 years in financial services, with deep expertise in banking, credit evaluation, risk management, collections, operations, treasury, and technology. The vast experience of its leadership team has enabled JSFB to implement international best practices in risk management, compliance, and governance.

| Name | Role | Experience | Profile |
|---|---|---|---|
| **Ajay Kanwal** | MD & CEO | Standard Chartered Bank<br>City Bank | Consumer and commercial banker with 32 years' experience<br>Regional CEO of ASEAN & South Asia at Standard Chartered Bank before joining Janalakshmi as CEO<br>Began his career with Citibank and has held various leadership positions throughout his banking career,<br>Has a Master of Management Studies degree from LNW, Mumbai University and a B.E. (E & TC) from Marathwada University |
| **Krishnan Raman** | Executive Director and Chief Credit and Collections Officer, Head of RFS | Standard Chartered Bank<br>Mashreq Bank PSC | Joined Jana in December 2017 as Chief Risk Officer and has been instrumental in establishing a robust Risk Management framework.<br>Over 35 years' banking experience from India, Singapore, Indonesia and the UAE.<br>Post Graduate in Business Management from the IIM C<br>Associate member of the Institute of Chartered Accountants of India |
| **Abhilash Sandur** | Chief Financial Officer | Kotak Mahindra Bank<br>Bharti Axa General Insurance Co. Ltd. | Qualified Chartered Accountant and has done his Masters in Commerce from Bangalore University<br>Over 15 years of experience with last 8 years in Jana Small Finance Bank.<br>He has extensive experience in multiple Finance areas including Controllership, Business Planning and Analytics, Cost Controls, Business Finance, Process Re-Engineering, and Balance sheet controls. |
| **Sumit Aggarwal** | Head – MSE, Supply Chain and Financial Institutions | Emirates NBD<br>Standard Chartered Bank | Has 31 years of banking experience<br>Managed businesses in Asia, Middle East, Africa and Europe focusing on trade and investment flow within and across Countries and Regions. |
| **Amit Raj Bakshi** | Chief Human Resource Officer | JP Morgan & Chase<br>Serco BPO<br>Telenor India<br>DBS Bank | Has over 20 years' experience in Banking, FMCG, ITES and Telecom sector, with expertise in Talent Acquisition & Management, HR Policies & Governance, Compensation & Benefits, Strategic Workforce Planning and HR Technology<br>Holds an MBA from Institute of Marketing & Management and has earned professional certifications in HR from London Business School, UK and XLRI Jamshedpur |
| **Satish Ramachandran** | Chief Risk Officer | Citibank NA<br>Standard Chartered Bank<br>Fullerton India | 20 years of experience across credit policy, collections, underwriting and sales.<br>Prior to joining Jana, he was heading new policy initiatives in Fullerton India and was instrumental in launching new products in Fullerton.<br>Satish has an engineering degree from BITS Pilani and a PGDM from IIM Lucknow. |

| Name | Role | Experience | Profile |
|---|---|---|---|
| **Shrinivas Murty J** | President and Head-Branch Banking and Marketing | HDFC Bank<br>ICICI Bank<br>Ujjivan Small Finance Bank | Has over 29 years of experience in Retail/SME/Agri/Micro-Finance Sales, Business & Product Development and, Service Operations<br>Has driven all aspects of Retail, TASC, Agri, SME, Micro-finance and Forex businesses both on liabilities and assets through Branch, Digital and Direct sales channels, having exposure in the diverse geographies of West, North, East, South and Central India.<br>Holds a PGDBM from MDI Gurgaon, and Senior Research Fellowship from IIT Kanpur. He is an associate of Indian Institute of Bankers. |
| **Pradeep Rebello** | Head – Two Wheeler Finance | HDFC Bank<br>ICICI Bank<br>Tata Capital<br>IDFC First Bank | 3 years of experience in retail finance industry and specializes in two wheeler finance.<br>Pradeep completed his MBA from JDC Bytco College, Nasik and his B.Com from Bhonsala Military College, Nasik. |
| **Ashish G Saxena** | Chief Information & Digital Officer | UGRO Capital Ltd<br>AU Small Finance Bank<br>Max Life Insurance | As the CIO of the Bank, Ashish is responsible for managing the IT Strategy, creating business value using Information and communication technology and providing the best in class IT enabled DIGITAL solutions to Bank's customers.<br>22 years of experience in technology functions to design, deliver and implement high-performance solutions.<br>Bachelor's degree in Electronics Engineering from IET, Lucknow. |
| **Ganesh Nagarajan** | Chief Operating Officer | Yes Bank<br>Equitas Small Finance Bank<br>Kotak Mahindra Bank<br>IDBI Bank | Over 30 years of banking experience in setting-up and running Retail Operations Units, include Centralised Operations, Branch banking, Clearing, Trade, Currency Chest operations and Contact Centre.<br>Ganesh holds a degree in M.Sc. Statistics from Madras Christian College. |
| **Rincoo Ji Vachha** | Head - Affordable & Micro Housing Loans | ICICI Bank<br>CRISIL | More than 21 years of experience, primarily in Home Loans at various leadership positions.<br>He joined Jana Bank from ICICI Bank Ltd., where he was instrumental in setting up and growing business for ICICI Bank's Home Finance subsidiary in tier II and tier III markets across the country<br>Completed his post graduate management degree in Marketing from Prin. L.N.Welingkar Institute of Management Development and Research (WeSchool), Mumbai University, and holds a Bachelor's degree in Electronics. |
| **Gopal Tripathi** | Head of Treasury & Capital Markets | State Bank of India<br>HDFC Bank<br>Bank of India | Joined JSFB July 2016 and was Head of the Interest Rate and Money Market business at RBS for six years prior to this<br>Has 23 years' experience in banking and treasury.<br>Gopal graduated from Patna University. He is a Junior Associate of the Indian Institute of Bankers and has a Diploma in Treasury, Integrated and Risk Management from Indian Institute of Banking & Finance. e is a Junior Associate of the Indian Institute of Bankers and has a Diploma in Treasury, Integrated and Risk Management from Indian Institute of Banking & Finance. |
| **M. Ramachandran** | Head of Internal Audit | HDFC Bank | has 41 years of experience in the Banking industry and has exposure to various areas of Risk Management, Audit & Compliance and Vigilance<br>Holds a Master's degree in Commerce from Delhi University, a Bachelor's Degree in Law from Saurashtra University and Diploma in Business Management from All India Management Association. |
| **Lakshmi R N** | Company Secretary & Compliance Officer | ING Vysya Bank<br>Firstapex Software Technologies Pvt Ltd<br>Kirloskar Multimedia | Has 18 years of experience in secretarial functions and corporate governance.<br>Lakshmi holds a Bachelor's degree in commerce from Bangalore University. She is an associate member of the Institute of Company Secretaries of India, New Delhi. |
| **Chitra Menon** | Chief Compliance Officer | ICICI Bank<br>HDFC Bank | Has over 26 years of Banking experience across Operations, Retail Branch Banking, Risk Management, Process Re-engineering, Service quality and Internal Controls.<br>Holds a Bachelor's Degree in Commerce from Delhi University and a Diploma in Business Management from IGNOU. |

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## Financials

**Income Statement (INR cr)**

| Year to March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Interest income | 3,075 | 4,013 | 4,860 | 5,755 | 6,899 |
| Interest charges | 1,415 | 1,886 | 2,320 | 2,693 | 3,193 |
| **Net interest income** | **1,660** | **2,127** | **2,540** | **3,062** | **3,706** |
| Other income | 625 | 671 | 726 | 849 | 1,033 |
| **Net revenues** | **2,285** | **2,798** | **3,266** | **3,912** | **4,740** |
| **Operating expense** | **1,285** | **1,605** | **2,009** | **2,328** | **2,796** |
| *- Employee exp* | 778 | 975 | 1,245 | 1,410 | 1,706 |
| *- Other opex* | 507 | 630 | 763 | 917 | 1,091 |
| **Preprovision op. profit** | **1,000** | **1,193** | **1,258** | **1,584** | **1,943** |
| Provisions | 744 | 679 | 763 | 860 | 970 |
| **PBT** | **256** | **515** | **494** | **724** | **973** |
| Taxes | -0 | -155 | -24 | - | - |
| **PAT** | **256** | **670** | **518** | **724** | **973** |
| Extraordinaries | - | - | - | - | - |
| **Reported PAT** | **256** | **670** | **518** | **724** | **973** |
| Basic number of shares (cr.) | 32.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| Basic EPS (INR) | 7.9 | 64.0 | 49.5 | 69.3 | 93.1 |

**Growth Ratios**

| Year to March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| NII growth | 19% | 28% | 19% | 20.5% | 21.0% |
| Non-Interest Income growth | 86% | 7% | 8% | 17% | 21.7% |
| Net Revenues growth | 32% | 22% | 17% | 20% | 21.2% |
| Opex growth | 13% | 25% | 25% | 16% | 20.1% |
| PPOP growth | 70% | 19% | 5% | 26% | 22.7% |
| Provisions growth | 31% | -9% | 12% | 13% | 13% |
| PAT growth | 1365% | 162% | -23% | 40% | 34% |

**Operating Ratios**

| Year to March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Yield on IEA | 13.8% | 14.1% | 13.9% | 13.7% | 13.5% |
| Cost of Funds | 7.0% | 7.5% | 7.6% | 7.5% | 7.3% |
| Spread | 6.8% | 6.6% | 6.3% | 6.2% | 6.2% |
| Net Interest Margin | 7.4% | 7.5% | 7.3% | 7.3% | 7.2% |
| Cost to Income Ratio | 56.2% | 57.3% | 61.5% | 59.5% | 59.0% |
| Tax Rate | 0.0% | -30.2% | -4.9% | 0.0% | 0.0% |

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**Balance Sheet (INR cr)**

| As on 31st March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **CAPITAL AND LIABILITIES** | | | | | |
| Share Capital | 325 | 105 | 105 | 105 | 105 |
| Reserves and Surplus | 1,472 | 3,473 | 3,991 | 4,715 | 5,688 |
| Deposits | 16,334 | 22,571 | 27,315 | 33,315 | 41,644 |
| Borrowings | 6,277 | 5,212 | 5,676 | 5,653 | 6,449 |
| Other Liabilities & Provisions | 1,235 | 1,350 | 1,916 | 3,292 | 3,698 |
| **Total Liabilities** | **25,644** | **32,710** | **39,001** | **47,079** | **57,583** |
| **ASSETS** | | | | | |
| Cash and Balances with RBI | 1,011 | 1,026 | 1,154 | 1,357 | 1,682 |
| Balances with Banks & Call Money | 1,076 | 1,029 | 1,201 | 1,470 | 1,823 |
| Investments | 5,221 | 6,738 | 7,950 | 9,539 | 11,829 |
| **Advances** | **17,760** | **23,111** | **27,785** | **33,638** | **40,965** |
| Fixed Assets | 128 | 142 | 149 | 155 | 159 |
| Other Assets | 448 | 665 | 762 | 920 | 1,126 |
| **Total Assets** | **25,644** | **32,710** | **39,001** | **47,079** | **57,583** |
| | | - | | | |

**Balance sheet ratios (%)**

| Year to March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Loan growth | 37% | 30% | 20% | 21% | 22% |
| IEA growth | 28% | 27% | 19% | 21% | 22% |
| Deposits growth | 21% | 38% | 21% | 22% | 25% |
| IBL growth | 25% | 23% | 19% | 18% | 23% |
| Gross NPA ratio | 3.6% | 2.0% | 2.8% | 2.4% | 2.1% |
| Net NPA ratio | 2.4% | 0.5% | 0.9% | 0.8% | 0.6% |
| Provision coverage | 33% | 75% | 67% | 69% | 72% |

**RoAE Decomposition**

| Year to March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Net Interest Income / Assets | 7.4% | 7.5% | 7.3% | 7.3% | 7.2% |
| Other Income / Assets | 2.8% | 2.4% | 2.1% | 2.0% | 2.0% |
| Net Revenues / Assets | 10.2% | 9.8% | 9.3% | 9.3% | 9.3% |
| Operating Expense / Assets | 5.8% | 5.6% | 5.7% | 5.5% | 5.5% |
| Provisions / Assets | 3.3% | 2.4% | 2.2% | 2.0% | 1.9% |
| Taxes / Assets | 0.0% | -0.5% | -0.1% | 0.0% | 0.0% |
| Total Costs / Assets | 9.1% | 7.5% | 7.9% | 7.6% | 7.4% |
| **Return on Assets** | 1.1% | 2.4% | 1.5% | 1.7% | 1.9% |
| Assets / Equity | 14.9 | 10.6 | 9.1 | 9.4 | 9.6 |
| **Return on Average Equity** | 17.1% | 24.9% | 13.5% | 16.3% | 18.3% |

**Valuation Metrics- Check**

| Year to March | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Basic EPS (Calc.) | 7.9 | 64.0 | 49.5 | 69.3 | 93.1 |
| EPS growth (%) | 808 | 713 | -23 | 40 | 34 |
| Book Value | 55.3 | 342.0 | 391.5 | 460.8 | 553.9 |
| Adjusted Book value per share | 48.1 | 335.8 | 378.8 | 447.9 | 541.3 |
| Basic P/E | 53.2 | 6.5 | 8.5 | 6.0 | 4.5 |
| Price / ABV | 8.7 | 1.2 | 1.1 | 0.9 | 0.8 |

**Nuvama Wealth and Investment Limited**, Eight Floor 801 to 804, Inspire BKC G Block, BKC Main Road, Bandra Kurla Complex, Bandra East, Mumbai-400051


**Sandeep Raina**

Head of Research – Professional Client Group

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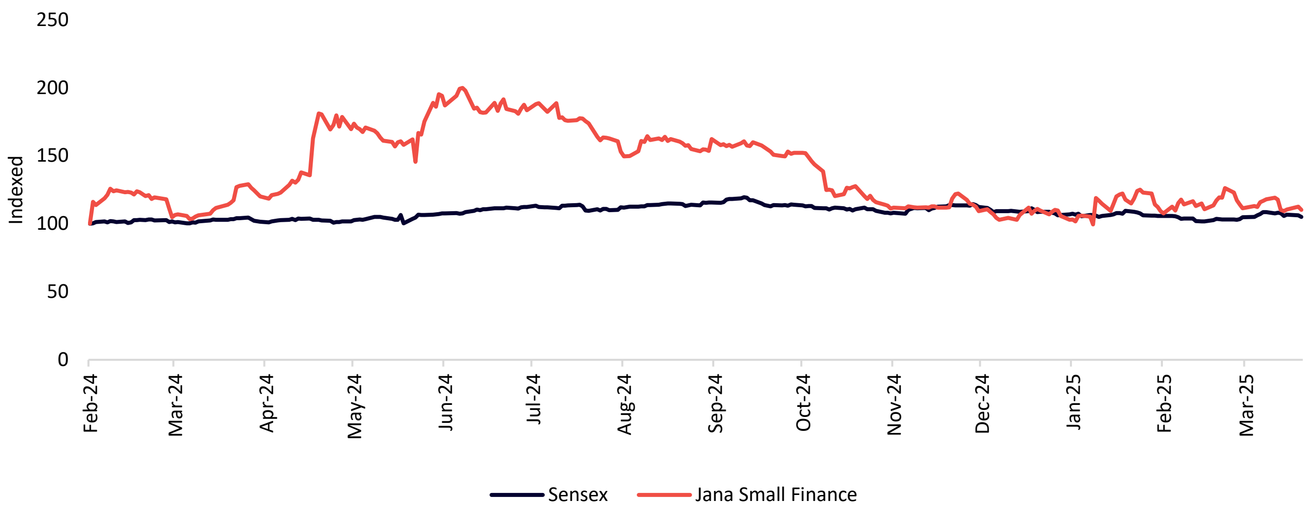
SANDEEP ASHOK RAINA Digitally signed by SANDEEP ASHOK RAINA Date: 2025.04.08 20:12:17 +05'30'


**Stock Ratings Absolute Returns**

BUY > 15%

HOLD -5% to 14%

SELL < -5%



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