

Press Release

Janakalyan Financial Services Private Limited (formerly known as JANAK CONSULTANCY SERVICES PRIVATE LIMITED)



October 23, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 70.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (upgraded from ACUITE BB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 70.00 Cr. bank facilities of JANAKALYAN FINANCIAL SERVICES PRIVATE LIMITED (JFSL). The outlook is '**Stable**'.

The rating revision is in view of improvement in JFSL's operating performance, which is expected to be sustained over near to medium term. JFSL's Asset Under Management (AUM) has grown to Rs. 152.94 Cr. as on March 31, 2019 (Rs. 167.15 crore as on June 30, 2019 (Provisional)) from Rs. 79.09 Cr. as on March 31, 2018, backed by significant growth in its managed portfolio (business correspondent segment). The company reported PAT of Rs. 0.98 crore for Q1FY2020 (Provisional) as against Rs. 0.90 Cr. for FY2019 and Rs. 0.23 Cr. in FY2018, Return on Average Assets (RoAA) also showed improvement to 2.82 percent (annualised) for three months ending June 30, 2018 (Provisional) from 0.80 percent FY2019 and 0.47 percent for FY2018. The rating also factors in the company's ability to raise fresh capital from institutional investors and existing shareholders and expectation of additional capital infusion over near to medium term to support the growth plans of the company.

Acuité expects the improvement in performance to be sustained over the near to medium term based on its resourceful promoters, experienced management team and established relationships with various lenders under the business correspondent arrangement.

JFSL (Formerly: Janakalyan Consultancy & Services Private Limited) is a Kolkata-based Non-banking financial company – Micro financial institution (NBFC-MFI). Established in 2017, JFSL is engaged in providing small ticket loans up to twenty thousand for income generating activities related to agriculture, animal husbandry and business purposes through the Joint Liability Group (JLG) model, primarily with women as Members / Borrowers.

In 2017, the company entered into an arrangement with Shree Mahila Samity (SMS) microfinance portfolio, an NGO with 42 years of track record in catering to underprivileged in rural Bengal, to disburse fresh loans to matured borrowers of SMS. The company, headquartered in Kolkata, presently has presence in 21 districts with 71 branches across 6 states (West Bengal, Odisha, Jharkhand, Bihar, Assam and Tripura) as on August 2019.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of JFSL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management, supported by institutional investors:**

JFSL is promoted by Mr. Sunanda Kumar Mitra and Mr. Alok Kumar Biswas. The promoter's together hold 37 per cent of the total equity, in FY2019 the company has received additional funding support from SIDBI Venture Capita Ltd. for a 23.11 percent stake in equity capital.

Mr. Biswas, Managing Director and CEO, is an ex-banker with over three decades' experience in the BFSI sector through his association with Canara banks and Axis bank. Mr. Mitra, Chairman has over three decades' experience in BFSI sector, he was ex-AGM of State Bank of India and has been associated with

AXIS Bank and Bandhan Bank. The promoters are supported by a team of independent directors, Mr. Kishore Kumar Raichandani, Nominee director of SIDBI Venture Capital Limited; Mr. Atanu Sen, ex-DMD, State Bank of India; amongst others. Besides the renowned persons on the Board, the company has in place professionals heading key verticals.

The company commenced its operations through 24 branches in West Bengal of SMS from March 2017 and since then, the company has expanded its operations to Bihar, Jharkhand and Odisha in FY2019. In FY2020, the company has also set its footprint in Assam and Tripura. As on March 31, 2019, the company operates through a network of 55 branches spread across 14 districts JFSL's loan portfolio stood at Rs. 152.94 Cr. on March 31, 2019 as against Rs. 79.09 Cr. as on March 31, 2018.

The Capital adequacy ratio (CAR) of JFSL stood at 29.58 per cent as on March 31, 2019 as against 19.99 per cent in FY2018. The improvement in CAR was on account of capital support received from SIDBI Venture Capital Ltd., Samridhi Fund for 23.11 per cent stake in equity capital. The company has raised further equity of Rs. 3.73 crore as on HY2020 and is expecting to receive further Rs. 5 crore in FY2020 through private equity funding, which will further support the growth plans of the management.

Acuité believes that JFSL will continue to benefit from its experienced management and ability to attract institutional funding from investors like SIDBI.

- **Significant scaling up of operations while maintaining asset quality**

JFSL began its operations in MFI sector in FY2017. Its overall AUM increased to Rs.152.94 Cr as on March 31, 2019, from Rs.79.09 Cr as on March 31, 2018 (Rs.0.46 Cr as on March 31, 2017). The growth in loan portfolio was mainly on account of additions in network of branches and to significant growth in BC portfolio. The company's operations are spread across 55 branches as on March 31, 2019 (71 branches as on August 31, 2019) from 35 branches as on March 31, 2018 and 24 branches as on March 31, 2017. The company has entered into BC agreements with three banks/financial institutions, the portfolio under BC arrangement increased to 42 per cent as of March, 2019 of the overall AUM against 11 per cent in FY2018.

The company has maintained a healthy asset quality with 99.81 per cent on time collection as on March 31, 2019 and 99.94 per cent as on March 31, 2018. It has demonstrated a healthy collection efficiency with a track record of over 100 per cent collection on an average for the twelve months ending March, 2019. The company benefits from its growth in its loan portfolio, while maintaining a healthy asset quality and off book exposure, which will ensure capital requirements be kept at modest levels while contributing to the profitability of the company.

Going ahead, Acuité believes that the ability of the company to demonstrate growth in its loan assets, while maintain healthy asset quality, will be crucial to the credit profile of the company.

Weaknesses

- **Susceptibility of operating performance to regulatory environment and access to funding at competitive prices**

JFSL's overall portfolio increased by ~98 per cent in FY2019 to Rs. 152.94 Cr as on March 31, 2019 as against Rs. 79.09 Cr. as on March 31, 2018. Since, the company has significantly expanded its operations and is continuously expanding to newer locations, the operating expenses have remained at higher levels, which can be seen in the operating expense to earning asset ratio of 9.69 per cent in FY2019 as against 6.28 per cent in FY2018. In spite of improvement in the company's Return on Average Assets (RoAA), was low at 0.80 per cent in FY2019 as against 0.47 per cent in FY2018. The Net Interest Margins (NIM) also declined to 7.17 per cent in FY2019 as against 10.78 per cent in FY2018.

JFSL is susceptible to changes in the regulatory framework and policies pertaining to Capital Adequacy and Provisioning norms. Further, recent NBFC crisis, coupled with cautious and selective approach adopted by banks and financial institutions has resulted in difficulties faced by players such as JFSL to raise funding at competitive rates thereby pressurising profitability as seen in the past.

Acuité believes that the ability of JFSL to grow its loan book, while improving its profitability, will be a key monitorable.

- **Modest geographic concentration risk**

JFSL's operations are concentrated at West Bengal accounting for 71 per cent of its AUM as on 31 March, 2019 followed by Bihar at 25 per cent and Odisha at 3 per cent. While the company is gradually expanding into other states such as Jharkhand, Assam and Tripura, there is an overall concentration of the lending business in West Bengal. Generally, the risk profile of a microfinance company with a geographically

diversified portfolio is more resilient compared to that of an entity with a geographically concentrated portfolio.

Acuité believes that the high geographical concentration of its portfolio will continue to weigh on its credit profile over the near to medium term.

Liquidity Position: Adequate

JFSL has adequately matched ALM as on March 31, 2019, with cumulative surplus all maturity buckets. Most of the loans are of upto two years' tenure, while the borrowings are up to tenure of three years, leading to positive mismatches over the near to medium term. The liquidity position is comfortable backed by additional funding support received from banks and investors in March 2019, which were pending disbursements. The company has as on June 30, 2019 received fresh sanctions and unutilised bank lines of ~ Rs. 15 Cr.

Outlook: Stable

Acuité believes that JFSL will maintain a 'Stable' outlook over the medium term supported by its experienced management team along with demonstrated ability to maintain healthy loan portfolio. The outlook may be revised to 'Positive' in case of higher than expected growth in loan book while maintaining key operating metrics and asset quality and liquidity. The outlook may be revised to 'Negative' in case of any headwinds faced in scaling up of operations or in case of any challenges in maintaining its asset quality, profitability metrics and capital structure.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Total Assets	Rs. Cr.	140.73	84.74	15.39
Total Income (Net of Interest Expense)	Rs. Cr.	10.35	5.44	0.11
PAT	Rs. Cr.	0.90	0.24	(0.23)
Net Worth	Rs. Cr.	24.74	12.31	5.30
Return on Average Assets (RoAA)	(%)	0.80	0.47	(2.94)
Return on Average Net Worth (RoNW)	(%)	4.86	2.69	(8.54)
Total Debt/Tangible Net Worth (Gearing)	Times	4.56	5.74	1.89
Gross NPAs	(%)	0.01	0.02	NIL
Net NPAs	(%)	0.01	0.01	NIL

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-10.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
17-July-2019	Term Loan	Long Term	3.75	ACUITE BB Issuer not co-operating
	Proposed Term Loan	Long Term	6.25	ACUITE BB Issuer not co-operating
06-Jun-2018	Term Loan	Long Term	3.75	ACUITE BB / Stable (Assigned)

	Proposed Term Loan	Long Term	6.25	ACUITE BB / Stable (Assigned)
06-Sept-2019	Term loan	Long Term	3.47	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term loan	Long Term	5.11	ACUITE BB+/Stable (Assigned)
	Term loan	Long Term	3.33	ACUITE BB+/Stable (Assigned)
	Term loan	Long Term	12.22	ACUITE BB+/Stable (Assigned)
	Term loan	Long Term	15.00	ACUITE BB+/Stable (Assigned)
	Term loan	Long Term	15.67	ACUITE BB+/Stable (Assigned)
	Proposed Term loan	Long Term	10.00	ACUITE BB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	5.20	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan	Not Applicable	Not Applicable	Not Applicable	3.47	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.11	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	3.33	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	12.22	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan	Not Applicable	Not Applicable	Not Applicable	15.67	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.20	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)

Contacts

Analytical	Rating Desk
Vinayak Nayak Vice President – Ratings Operations Tel: 022 49294071 vinayak.nayak@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

Salome Farren
Analyst - Rating
Operations
Tel: 022-49294072
salome.farren@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.