

Press Release

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



November 05, 2019

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 100.00 Cr. (Enhanced from Rs. 70 Cr.)
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 100.00 Cr. bank facilities of JANAKALYAN FINANCIAL SERVICES PRIVATE LIMITED (JFSL). The outlook is '**Stable**'.

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 Capital 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 as DGM Credit, AXIS Bank and Bandhan Bank. The promoters are supported by a team of independent directors, Mr. Dhara Jitendra Mehta, 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

Capita 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.

Rating Sensitivities

- Decline in Profitability and asset quality.
- Further increase in gearing levels.
- Increase in geographic concentration.
- Changes in regulatory environment governing micro finance activities.

Material Covenants

None

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
23-October-2019	Term Loan	Long Term	3.47	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)

	Term Loan	Long Term	5.11	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	3.33	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	12.22	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	15.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	15.67	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Proposed Bank Facility	Long Term	5.20	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	3.47	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
06-September-2019	Term Loan	Long Term	5.11	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term Loan	Long Term	3.33	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term Loan	Long Term	12.22	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term Loan	Long Term	15.00	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term Loan	Long Term	15.67	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term Loan	Long Term	10.00	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Proposed Bank Facility	Long Term	5.20	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term Loan	Long Term	3.75	ACUITE BB Issuer not co-operating
17-July-2019	Proposed Term Loan	Long Term	6.25	ACUITE BB Issuer not co-operating
	Term Loan	Long Term	3.75	ACUITE BB / Stable (Assigned)
06-Jun-2018	Proposed Term Loan	Long Term	6.25	ACUITE BB / Stable (Assigned)
	Term loan	Long Term	3.47	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
06-Sept-2019	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	2.71	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	4.67	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	2.78	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	11.39	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	14.33	ACUITE BBB-/Stable (Reaffirmed)
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	14.56	ACUITE BBB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	14.56	ACUITE BBB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Salome Farren Analyst - Rating Operations Tel: 02249294072 salome.farren@acuite.in	

About Acuité Ratings & Research:

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