

Press Release

JANAKALYAN FINANCIAL SERVICES PRIVATE LIMITED (ERSTWHILE JANAK CONSULTANCY AND SERVICES PRIVATE LIMITED)



January 20, 2021

Rating Downgraded and Assigned

Bank Loan Rating	Rs. 150.00 Cr. (Enhanced from Rs. 100 Cr.)
Long Term Rating	ACUITE BB+/ Outlook: Stable (Downgraded and Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 100.00 Cr bank facilities and has assigned the long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 50.00 Cr of proposed bank facilities of Janakalyan Financial Services Private Limited (JSFPL). The outlook is '**Stable**'.

Reason for Rating Downgrade

The revision in rating is primarily driven by sharp increase in delinquencies across different buckets, the time collection has declined from ~99 per cent as on March 31, 2020 to ~45 per cent in September 30, 2020 and further to ~36 per cent as on November 30, 2020. . The elevated stress levels are reflected in other buckets as well, the 30 to 90dpd bucket increased from 0.11 per cent as on September 30, 2020(0.12 per cent as on March 31, 2020) to ~39 per cent as on October 31, 2020 and further to ~49 per cent as on November 30, 2020. Further, the company has restructured ~30 per cent of its loan portfolio, which would, in turn, result in sharp increase in the credit costs over the near term thereby impacting profitability. Acuité notes that JSFPL has significantly slowed down its disbursements in the current year on account of low collections and limited resources to preserve liquidity. Acuité expects the slowdown in disbursements to continue, which is likely to impact the operating performance over the near to medium term.

The company continues to derive strength from its experience management team and board of directors who have prior experience in the Financial Sector. The rating also derives strength from the adequate capitalization levels and the constant support from the promoters. During FY2020, the, promoters infused equity of Rs.3.73 Crore. The Capital Adequacy Ratio (CAR) stood at 23.23 per cent as on September 30, 2020 and 23.25 percent as on March 31, 2020.

About the company

JFSPL (Formerly: Janakalyan Consultancy & Services Private Limited) is a Kolkata-based Non-banking financial company – Micro financial institution (NBFC-MFI) promoted by Mr. Sunanda Kumar Mitra and Mr. Alok Kumar Biswas both of whom possess more than twenty year of experience in financial sector. Established in 2017, JFSPL 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 22 districts with 75 branches across 6 states (West Bengal, Odisha, Jharkhand, Bihar, Assam and Tripura) as on September 2020

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management team supported by institutional investors:**

JFSPL is promoted by Mr. Sunanda Kumar Mitra and Mr. Alok Kumar Biswas. The promoter's together hold 35 per cent of the total equity, in FY2020. The company has received additional funding support from SIDBI Venture Capital Ltd. for a 23.11 percent stake in equity capital (SIDBI's stake stood at 21 percent in FY2020). 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, exDMD, 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 September 30, 2020, the company operates through a network of 75 branches spread across 22 districts JFSL's loan portfolio stood at Rs. 230.39 Cr. on September 30, 2020 and Rs. 239.26 Cr. as on March 31, 2020 as against Rs. 152.94 Cr. as on March 31, 2019.

The Capital adequacy ratio (CAR) of JFSL stood at 23.23 per cent as on September 30, 2020 and 23.25 percent as on March 31, 2020 as against 29.58 per cent as on March 31, 2019. The decline in CAR was on account of increase in Risk Weighted Assets. The company has raised further equity of Rs. 3.73 crore as on FY2020 and is expecting to receive further Rs. 5 crore in FY2021 through right issue, which will further support the growth plans of the management.

Acuité believes that JFSPL will continue to benefit from its experienced management; however, going forward the ability to attract funding from the financial institutions would be critical.

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

Weaknesses

- **Susceptibility of operating performance to the current challenging environment amidst elevated stress in asset**

The MFI lending segment entails providing loans to the lower economic strata of the society. The pandemic related lockdowns and natural calamities like floods in the area operations have resulted in significant logistical challenges, affecting the movement of men and goods. This has impacted the credit profile of most of the borrowers and the impact has been more severe on the lower economic strata of the society who are already vulnerable. The logistical challenges in reaching out to the borrowers either for collections or disbursements have disrupted the operations of most of the MFIs. The intermittent lockdowns and relaxations have resulted in volatility in collection efficiency. Though JFSL's overall portfolio increased by ~56 per cent in FY2020 to Rs. 239.26 Cr as on March 31, 2020 as against Rs. 152.94 Cr. as on March 31, 2019. The portfolio has declined marginally to Rs. 230.39 Cr. as on September 30, 2020. The company also has into Business Correspondent Partnership with various banks/financial institutions to grow its AUM. The logistical challenges in reaching out to borrowers either for disbursement or collections have led to subdued collection efficiency and asset quality pressures. JSFPL's had been required to give moratorium to most of its borrowers, and has been able to collect ~61 per cent (against scheduled collections) in August 2020. Thus, the collection efficiency remains subdued in the post moratorium leading to build up of significant overdues. While the company presently has sufficient capitalization levels (presently Capital adequacy ratio stood at 23.23%, Tier 1 stood at 21.26%) to absorb any sharp increase in credit costs, the impact on the profitability metrics is presently unascertainable.

In the post moratorium period, the on time collection has declined from ~99 per cent as on March 31, 2020 to ~45 per cent in September 30, 2020 and further to ~36 per cent as on November 30, 2020. This has led to increase in Gross Non-Performing Assets (GNPA) from 0.44 per cent as on March 31, 2020 to 0.66 per cent as on September 30, 2020 and further to 0.75 per cent as on November 30, 2020. On account of low collections, JSFPL has slowed down its disbursements in the current year to preserve liquidity and has been

able to disburse ~Rs. 51 Cr. until December 31, 2020. Going forward, Acuité expects the slow pace of disbursements to continue, which is likely to slow down the growth in the portfolio.

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.

Acuité believes that the ability of JFSL to grow its loan book while improving its asset quality, 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 contributing ~52 per cent of its AUM, followed by Bihar ~38 per cent and remaining amongst other four states. Thus, the company's performance is expected to remain exposed to the competitive landscape in these regions and the occurrence of events such as natural calamities, which may adversely impact the credit profile of the borrowers. Besides geography, the company will be exposed to competition and any changes in the regulatory framework, thereby impacting the credit profile of JFSL. 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 AUM, profitability and asset quality
- Increase in geographical concentration
- Maintenance of adequate Liquidity
- Changes in regulatory environment governing microfinance activities

Material Covenants

JSFPL is subject to covenants stipulated by its lenders/investors in respect of various parameters like capital structure, asset quality, among others. As per confirmation received from client, vide mail dated December 19, 2020. 'JSFPL is adhering to all terms and conditions stipulated as covenants by all its lenders/investors.'

Liquidity Position: Adequate

As per the Asset Liability Management (ALM) statement dated September 30, 2020, JSFPL has positive cumulative mismatch in all of its maturity buckets. JSFPL's liquidity buffers primarily depend on its cash inflows (collections from clients and loans from banks) vis. a vis. the cash outflows (disbursements, debt-servicing commitments, operating expenses). The cash collections of the company were impacted by the lockdowns and blanket moratorium to all of its borrowers in the first phase, however, has been improving at a slow pace.). The company itself had availed moratorium from most of its lenders up to the month of May 2020. However, the company has started repayments from the month of June 2020. The company has unencumbered cash and bank balances of ~ Rs. 12.34 Cr. as on December 31, 2020.

Outlook: Stable

Acuité believes JSFPL will maintain a 'Stable' outlook given its experienced management team and comfortable capitalization. The outlook may be revised to 'Positive' if there is significant scale up of the operations while improving profitability and asset quality. Conversely, the outlook may be revised to 'Negative' in case of growth challenges or if the company faces asset quality or liquidity related challenges.

About the Rated Entity - Key Financials

	Unit	FY20	FY19
Total Assets	Rs. Cr.	195.22	140.73
Total Income (Net of Interest Expense)	Rs. Cr.	21.51	10.35

PAT	Rs. Cr.	6.02	0.90
Net Worth	Rs. Cr.	34.49	24.74
Return on Average Assets (RoAA)	(%)	3.58	0.80
Return on Average Net Worth (RoNW)	(%)	20.33	4.86
Total Debt/ Net Worth (Gearing)	Times	4.44	4.56
Gross NPAs	(%)	0.44	0.01
Net NPAs	(%)	0.18	0.01

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-52.htm>
- Non- Banking Financing Entities - <https://www.acuite.in/view-rating-criteria-44.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of the Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
November 05, 2019	Term Loan	Long Term	2.71	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	4.67	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	2.78	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	11.39	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	14.33	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Term Loan	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	14.56	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	14.56	ACUITE BBB-/Stable (Assigned)
October 23, 2019	Proposed Bank Facility	Long Term	5.00	ACUITE BBB-/Stable (Reaffirmed)
	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)
September 06, 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)
	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)
	Term Loan	Long Term	3.75	ACUITE BB (Issuer not co- operating)
July 17, 2019	Proposed Term Loan	Long Term	6.25	ACUITE BB (Issuer not co- operating)
	Term Loan	Long Term	3.75	ACUITE BB/Stable (Assigned)
June 06, 2018	Proposed Term Loan	Long Term	6.25	ACUITE BB/Stable (Assigned)

***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 Available	Not Available	Not Available	1.56	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Available	Not Available	Not Available	27.63	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Available	Not Available	Not Available	7.08	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Available	Not Available	Not Available	8.00	ACUITE BB+/Stable (Downgraded from ACUITE

					BBB-/Stable)
Term Loan	Not Available	Not Available	Not Available	8.40	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Available	Not Available	Not Available	6.25	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Available	Not Available	Not Available	12.52	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Available	Not Available	Not Available	3.44	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan	Not Available	Not Available	Not Available	2.93	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	22.19	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BB+/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Mohit Jain Senior Vice President Tel: 022- 4929 4071 mohit.jain@acuite.in</p> <p>Palak Shah Analyst - Rating Operations Tel: 022- 4929 4000 palak.shah@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4021 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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