

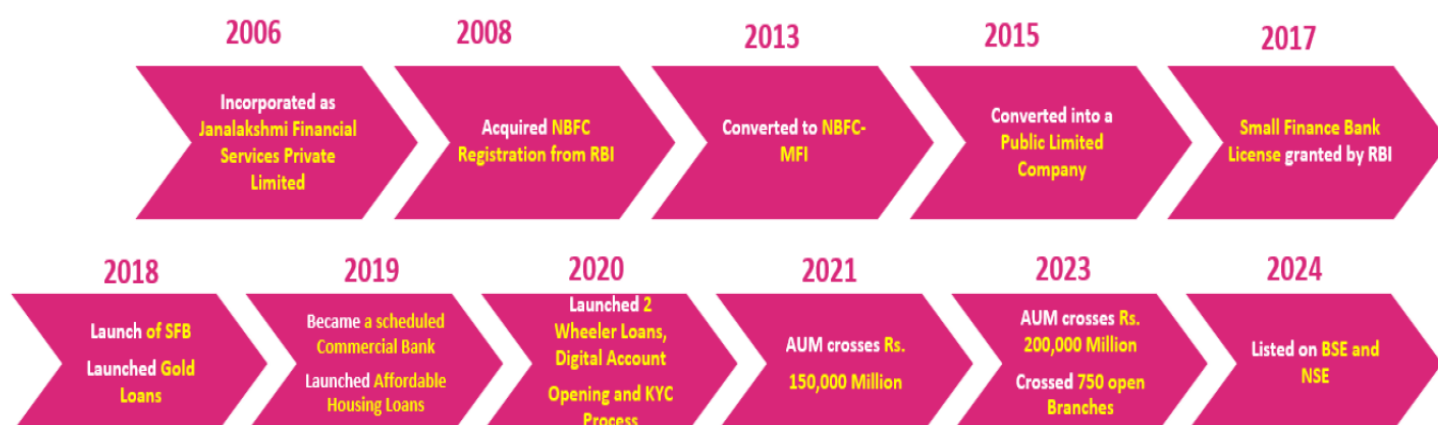
Jana Small Finance Bank

Date: 26 June 2025
Price: 500
Action: BUY

Industry/Sector	Target Price	Upside Potential	Investment Duration
Banking- Small Finance Bank	600 to 625	20% to 25%	12 to 15 Months

Journey of Company:

- Jana SFB has undergone an institutional transformation, progressing through various stages of growth and expansion in last 2 decades.



About Company:

- Company is the 4th largest small finance bank (SFB) in terms of advances or AUM (29,545 Cr), as of FY25.
- Pan-India presence with 802 banking outlets across 23 states and 2 UTs; 4.2 million active customers, with an AUM of 29,545 Cr. as of 31 March 2025.
- As of FY25, Jana SFB has 69.83% of secured (Affordable Housing – 20.8%, Micro Lap – 19.5%, MSME Loans – 14.5%, etc.) and 30.17% of unsecured loans (comprises of agricultural & allied loans, individual loans, and group loans; AUM of 8912 Cr with avg. tenure of 25 months & avg. ticket size of 40K).
- Jana SFB has been reducing its geographical concentration across states strategically on both assets & liabilities sides. It is one of the least concentrated SFBs, spread across 23 states and two Union Territories covering ~180 cities, with no single state contributing more than 14% 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 FY25 from 46% in FY22.
- In Feb 2024, company successfully launched its Initial Public Offering (IPO) & raised 570 Cr (Fresh Issue of 462 Cr & Offer for Sale of 108 Cr.) at a price of 414.
- As of March 31, 2025, Key stakeholder holdings details- Promoters (22.28%; no pledging), TPG (8.13%), Amansa Holdings (6.07%), MFs (5.3%), Insurance Companies (4.7%), North Haven (3.95%), Sunil Kant Munjal (3.71%).
- On 9 June 2025, Company has submitted its application to the Reserve Bank of India (RBI) seeking approval for voluntary transition from a Small Finance Bank to a Universal Bank.

Historical Financial Performance:

- Gross advances (AUM) grew by 19.4% YoY to 29,547 Cr. led by a robust pick up in secured loans which grew by 40%YoY in FY25.
- C/I (Cost to Income) ratio rose due to reduced income from the shrinking unsecured book and bank invested significantly in increasing headcount from 1,800 to 3,300.
- Accelerated Provisioning of 305 Cr. taken in FY25 compared to 73 Cr. in FY24, primarily to maintain Net NPA <1% and to address MFI stress problem. Adjusted PAT would have been 779 Cr. Compared to reported PAT of 501 Cr.**
- In FY25, Deposits increased 29% and CASA by 18%, but CASA ratio slipped from 20 to 18% due to higher growth in term deposits.

5 Yrs. Financial Performance							
Amounts In Cr.	FY21	FY22	FY 23	FY24	FY25	1 Yr Growth	3 Yr CAGR
Loan Book (AUM)	12770	15347	19808	24746	29545	19.39%	24.40%
Net Interest Income (NII)	1263.15	1389.78	1660	2127	2391.35	12.43%	19.83%
Credit Cost	366.59	569.32	744.4	523.77	725		
Credit Cost as % of AUM	2.87%	3.71%	3.76%	2.12%	2.45%		
Cost To Income (Operating Expenses)	70.47%	66.00%	56.22%	57.35%	61.30%		
Pre-Provisioning Profits (PPoP)	438.85	586.81	1000.35	1193.16	1226.19	2.77%	27.85%
Net Profit (Total PAT for EPS)	72.26	17.49	255.95	669.5	501.19	-25.14%	206.01%
GNPA to AUM	6.70%	5.00%	3.60%	2.00%	2.50%		
NNPA to AUM	4.80%	3.40%	2.40%	0.50%	0.90%		
Book Value Per Share	190.2	204.4	277.8	342	392	14.62%	24.24%
ROE	7.48%	1.66%	16.76%	18.71%	12.17%		
ROA	0.37%	0.08%	0.99%	2.04%	1.30%		

Potential Future Growth Possibilities:

- The C/I ratio rose due to reduced income from the shrinking unsecured book. The bank invested significantly in secured product expansion (affordable housing, MSME, gold, etc.), increasing headcount from 1,800 to 3,300. With this investment largely completed, the management expects opex to stabilize and C/I to fall below 60% in FY26.
- Monetary Decision taken by RBI in last 5 months (total 100 bps cut in Repo rate, CRR will be lowered by 100 bps to 3% from sept- nov 2025 onwards, 75% LTV including interest in Gold Loans and reducing the priority sector lending (PSL) target for small finance banks (SFBs) from 75% to 60%) will aid the company in reducing their risks as well as in growing credit or aum growth although with a lag effect of roughly 3 to 6 months.**
- On 9 June 2025, Company has submitted its application to the Reserve Bank of India (RBI) seeking approval for voluntary transition from a Small Finance Bank to a Universal Bank. Jana SFB has now met the RBI's Universal Bank thresholds—Gross NPA <3% and Net NPA <1% for two consecutive years. Post approval of the UB license, the cost of borrowings could come down for the company.
- Asset Quality: Most of the GNPA's are from property-backed loans, which management sees as recoverable and not long-term risky.
- Risk Mitigation: 28% of MFI book now under guarantee (CGFMU/CGTMSE- with ~70–75% credit loss cover); target to reach ~90% by FY26 end. Help in reducing future credit cost (provisions & contingencies) volatility.

Key Strengths:

- After facing huge losses in the wake of demonetisation & management change (Mr. Ajay Kanwal, Managing Director and CEO – joined in Aug 2017), management focussed on growing its secured book (collateral backed loans). They **have reduced their unsecured loans mix from 99% in FY18 to 60% in FY21 to 40% in FY24 to 30% as of FY25**. Overall, gross secured advances have grown at a CAGR of 40% from FY21–FY25 and stand at 29,545 Cr. as of FY25. Moreover, management is targeting to make their secured lending of total aum will be 80% in next 2 to 3 yrs from 70% as of 31 March 2025.

Potential Risks:

- Spreads might come under pressure due to competition or focusing more towards secured lending (lower yield loans).
- Slower-than-expected AUM growth of 20% in coming years.
- Valuation de-rating might happen due to higher credit cost (provisions & write offs), GNPA & NNPA in future.
- PE stake sale possibility in future which will have short-term impact on the share price.

Management Guidance for FY27:

- Deferred Tax Asset:** Rs. 550 crore balance at FY25-end; DTA benefit to continue through FY27. PAT, ROA and ROE is without considering the impact due to recognition of future DTA

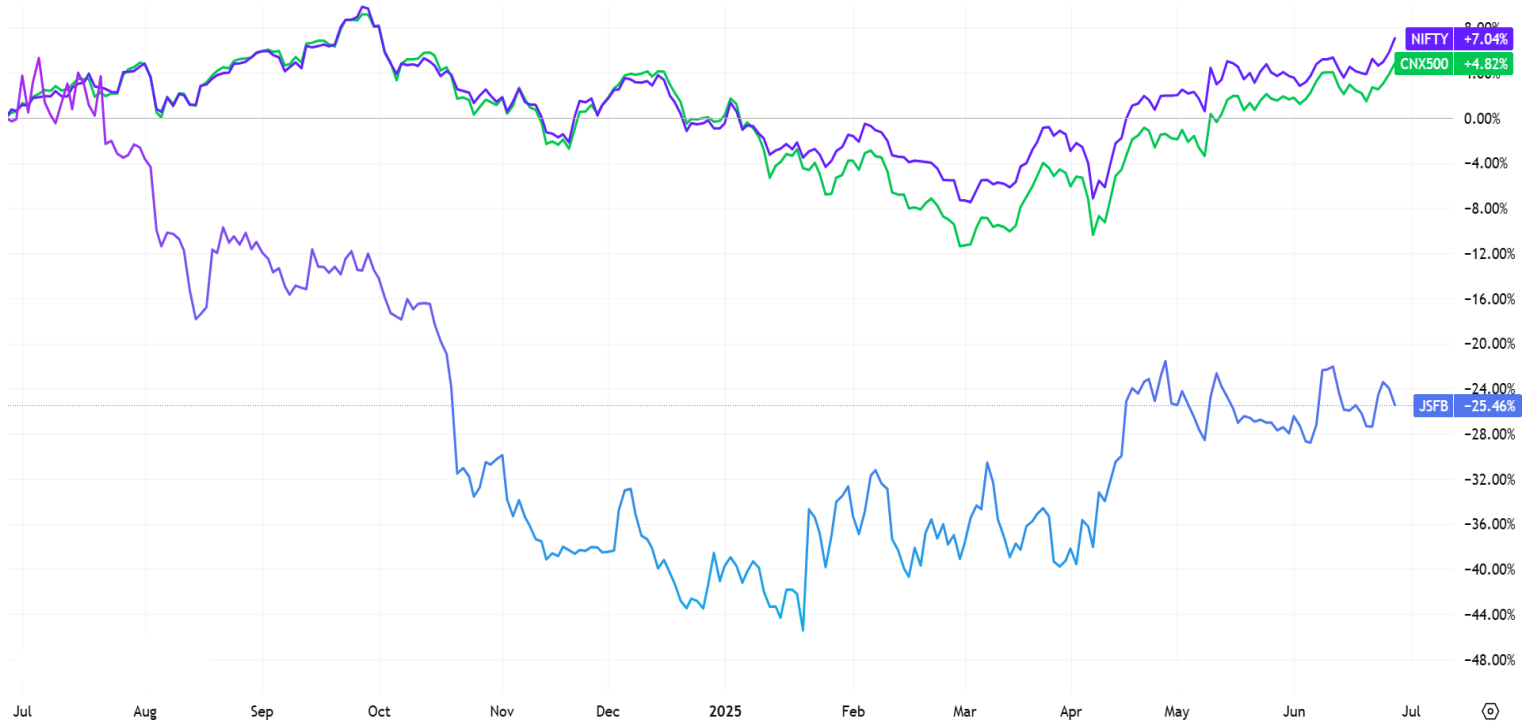


- No capital raise is planned in the next 5 years due to sufficient internal accruals and Tier 2 buffer; Universal Bank (once get approval from RBI) benefits will mainly reflect on the liability side.
- Management expects margin to stabilize in FY26, led by improved cost of deposits, recovery in unsecured growth, and continued strong profitability in secured assets.
- Management expects opex to stabilize and C/I to fall below 60% in FY26 from 61.3% in FY25.

Peer Comparison:

Amounts In Cr.	Jana SFB	Equitas SFB	Ujjivan SFB
Market Cap	5,262	7,680	9,500
Price to Book Value (P/B)	1.3	1.27	1.57
Loan Book (AUM)	29,545	37,986	32,122
MFI Contribution in Loan	30.00%	11.90%	56.50%
Credit Cost	2.45%	2.98%	2.45%
GNPA	2.50%	2.89%	2.20%
NNPA	0.90%	0.98%	0.50%

1 Yr. Return Movement Comparison b/w Jana SFB and Benchmarks (Nifty50 & Nifty500):



Conclusion:

Our view on Jana Small Finance is positive & BUY at current market price for medium to long-term investment horizon despite short-term headwinds of higher credit cost & stress in MFI segment at Industry level. We believe strong management capability (had grown Pre-provisioning profits at a cagr of 28% in last 3yrs despite reduced their unsecured loan mix from 50% in FY22 to 30% in FY25) can overcome future risks (if any occur) and deliver our desired growth rate (PAT, PPOP, Net Worth) of 18 to 22% over the next 2 yrs. We believe this investment opportunity will provide an upside potential of 20 to 25% with the investment horizon of 12 to 15 months.

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