

April 25, 2023

Jothi Housing and Mortgage Finance Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based term loan	50.00	50.00	[ICRA]BB (Stable); reaffirmed
Total	50.00	50.00	

* Instrument details are provided in Annexure I

Rationale

The rating takes into consideration the long-standing experience of Jothis Housing and Mortgage Finance Private Limited's (JHMF) promoter in the retail lending business and the company's adequate capitalisation profile for its current scale of operations. ICRA notes that the promoters had infused Rs. 3.5 crore in March 2023 to meet the regulatory requirement for the minimum net worth criteria for a housing finance company (HFC). Commencing operations in August 2020, JHMF grew its assets under management (AUM) to Rs. 31.6 crore as of December 2022, which remains modest at present. In addition to its own lending, the company is working on a co-lending and business correspondent (BC) partnership, which is expected to support the AUM growth in the near-to-medium term. The rating also considers JHMF's commensurate underwriting policy and efficient collection model, which have helped it maintain the asset quality so far, though the same is to be seen as the scale of operations increases. The rating also factors in the high growth potential in the affordable housing segment, given the low credit penetration and the Government's focus on the sector.

The rating is, however, constrained by the company's limited track record of operations and the low seasoning of its loan book with its ability to maintain healthy asset quality indicators across economic cycles yet to be established. The rating also factors in the high portfolio vulnerability, given the modest target borrower profile comprising low-and-middle-income individuals/families along with the high geographical concentration of the loan book. Nevertheless, the risk is somewhat mitigated by the comfortable loan-to-value ratios, which could limit the ultimate loss in case of defaults.

Going forward, JHMF would need to raise debt in a timely manner and operationalise partnership arrangements, which would be crucial for AUM expansion. Further, its ability to maintain tight control on its asset quality, as the AUM increases, would be a key monitorable.

Key rating drivers and their description

Credit strengths

Well established experience of the promoter in retail lending business – JHMF was incorporated in February 2018 with its registered office in Trichy, Tamil Nadu. It obtained a licence as a housing finance institution in February 2020 and commenced its business in August 2020. Mr. Maria Vasanth Nathan is the promoter-director of the company and holds the majority of the shares. Ms. Shirley Devaraj, the Chief Executive Officer (CEO) and whole-time director, had previously worked with Grama Vidiyal Microfinance for more than a decade, which was later acquired by IDFC Bank and renamed IDFC First Bharat.

Adequate capitalisation profile at present – JHMF's capitalisation profile is adequate for the current scale of operations with a reported net worth of Rs. 16.7 crore and a gearing of 1.4 times as of December 2022. ICRA notes that the promoters infused Rs. 3.5 crore in March 2023 to meet the regulatory requirement for the net worth of an HFC (Rs. 20.0 crore by March 2023).

With incremental business to be funded out of fresh borrowings, the gearing is expected to increase from the current level and reach around 2 times in the near term.

Credit challenges

Small scale of operations with limited track record – JHMF started its operations recently and had a modest AUM of Rs. 31.6 crore as of December 31, 2022. The disbursements in 9M FY2023 were lower at Rs. 8.6 crore compared to Rs. 21.5 crore in FY2022 as the availability of external funding was limited. The company currently operates in five districts of Tamil Nadu. In addition to its own lending, JHMF is working on a co-lending and BC partnership, which is expected to support AUM growth in the near-to-medium term. Going forward, it is also expected to increase the number of branches covering all the districts of Tamil Nadu, which would support AUM growth. ICRA expects the operations to remain concentrated in Tamil Nadu and in a few districts over the near-to-medium term.

Ability to scale up while maintaining healthy asset quality – Given the modest AUM size and the prudent internal controls for the sanctioning of loans, JHMF had no delinquencies as of December 2022 with 100% monthly collection efficiency since inception. The company has information technology (IT) control systems commensurate with the current scale of operations. However, its ability to keep the asset quality under control during the high AUM growth phase will be a key monitorable.

Ability to raise adequate funds for growth – JHMF received sanctions for Rs. 26.5 crore of debt from five different lenders since inception. Going forward, its ability to raise adequate funds in a timely manner with a commensurate tenure, to restrict asset-liability mismatches to the minimal levels, and at competitive rates would be a key monitorable.

Liquidity position: Adequate

JHMF had cash and cash equivalents of Rs. 1.0 crore as of March 31, 2023 against debt repayment obligations of Rs. 1.8 crore in the next three months. Further, its sanctioned unutilised bank lines (Rs. 3.0 crore as of March 31, 2023) and collections are expected to adequately support its liquidity profile in the near term. The ALM statement, as of December 2022, had no negative cumulative mismatches in any of the buckets.

Rating sensitivities

Positive factors – ICRA could upgrade the rating or revise the outlook to Positive in case of a sustained improvement in the company's AUM and earnings profile.

Negative factors – ICRA could downgrade the rating or revise the outlook to Negative in case of a significant deterioration in JHMF's asset quality. The company's inability to raise funds could also adversely impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Credit Rating Methodology for Non-banking Finance Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of JHMF

About the company

Jothi Housing and Mortgage Finance Private Limited. (JHMF) was incorporated on February 12, 2018, with its registered office in Trichy, Tamil Nadu. On February 26, 2020, JHMF obtained a licence as a HFC without accepting public deposits and commenced business in August 2020. Mr. Maria Vasanth Nathan is the promoter-director of the company. JHMF is a housing finance company extending housing loans and mortgage loans to salaried and self-employed individuals. It currently has four

branches. It works in the affordable lending segment and gives loans with a ticket size of less than Rs. 30 lakh. It works primarily in Tamil Nadu and plans to expand within the state. As of March 2023, the current paid-up capital was Rs. 15.0 crore with a net worth of ~Rs. 20 crore. The AUM was Rs. 31.6 crore as of December 2022.

Key financial indicators (audited) – IGAAP

Jothi Housing and Mortgage Finance Private Limited	FY2021	FY2022	9M FY2023*
Profit after tax	0.0	0.2	0.4
Net worth	16.1	16.3	16.7
Total managed portfolio	3.7	24.5	31.6
Total managed assets	16.1	26.8	41.9
Return on average managed assets	0.1%	0.9%	1.5%
Return on average net worth	0.1%	1.2%	3.2%
GNPA	0.0%	0.0%	0.0%
NNPA	0.0%	0.0%	0.0%
CRAR (managed)	303.3%	100.9%	96.7%
Gearing (reported; times)	0.0	0.6	1.4

Source: Company, ICRA Research; Amount in Rs. crore; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S. No.	Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years			
			Amount Rated	Amount Outstanding	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
			(Rs. crore)	(Rs. crore)	Apr-25-2023	-	Jan-27-2022	-	
1	Long-term fund-based term loan	Long term	50.00	-	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	-	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund-based term loan*	-	-	-	50.00	[ICRA]BB (Stable)

Source: Company

*Not availed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - NA

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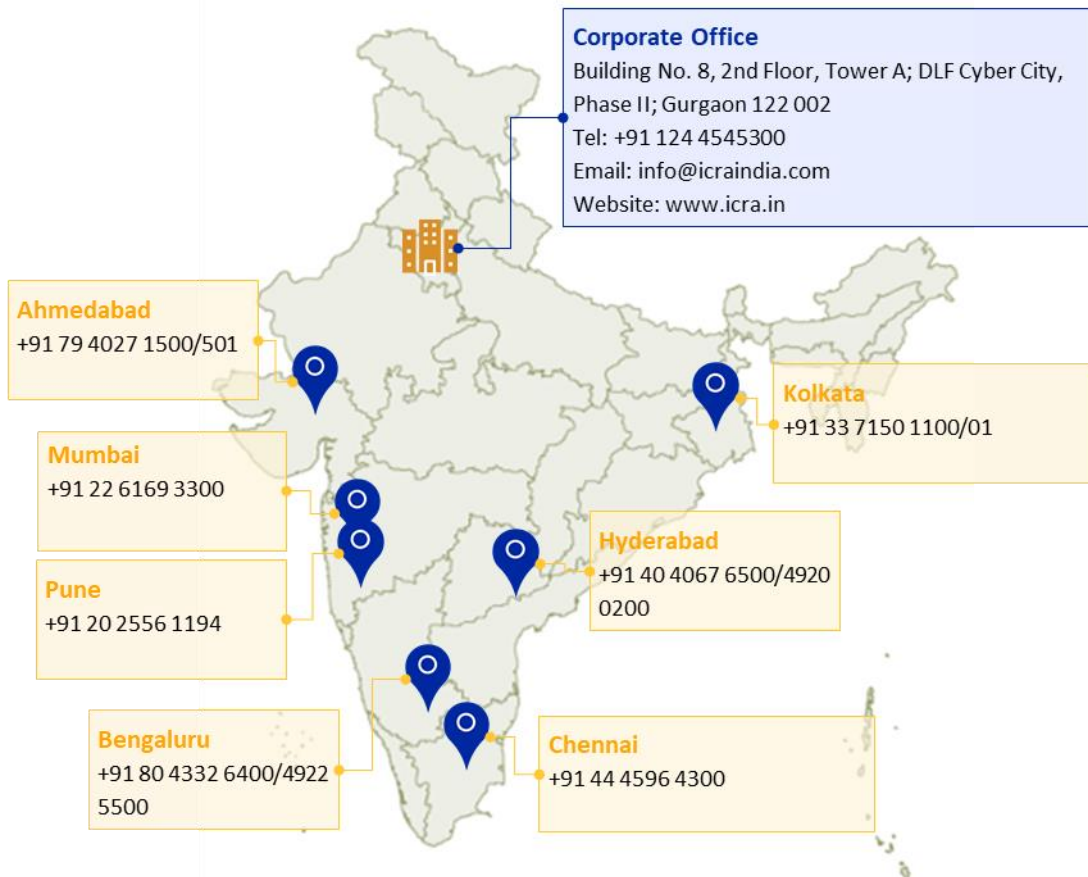
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