

February 21, 2023

Janaadhar (India) Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Unallocated limits	30.0	30.0	[ICRA]BB+ (Stable); reaffirmed
Total	30.0	30.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Janaadhar (India) Private Limited (JIPL) takes into account the healthy progress in construction and low market risk associated with the ongoing student housing project in Bangalore, as the company has entered into an agreement to lease the facility entirely to Jain University, Bangalore. The project is expected to be completed by June-July 2023 and rentals are likely to commence from August 2023. The rating continues to draw comfort from its healthy track record in the affordable housing sector and its conservative financial policy. The company raises adequate equity for each project, thereby ensuring moderate leverage.

The rating, however, is constrained by the high execution and market risks associated with the recently started affordable housing project in Sanand, Gujarat. The commencement of project construction for was postponed by around 9 months due to delay in receipt of various approvals. The construction of phase 1 of the project has started in December 2022 and the company is expected to launch the project in Q1 FY2024. Phase I is being funded through external debt and equity. The market response after its launch will remain a key monitorable. However, the risk is partly mitigated by the payment schedule for land consideration, which is linked to the collections from customers' advances. Further, the company has received the revised repayment schedule for debt sanction of the Sanand project. As per the revised terms, the repayments will start from September 2024 as against January 2024 earlier. Besides, the rating is constrained by the small scale of operations and the low profit margin inherent in projects targeted at the lower income segment.

The Stable outlook reflects ICRA's expectations that the company will continue to benefit from the extensive experience of its promoters in the affordable housing segment.

Key rating drivers and their description

Credit strengths

Track record of the Group in affordable housing sector – JIPL operates in the affordable residential real estate segment. The company has completed two affordable housing projects, namely, Shubha in Bangalore and Mangala in GIFT City, Gujarat encompassing an area of 1.2 million square feet (msf). It is currently developing another affordable housing project in Sanand, Gujarat with a saleable area of 5.5 lakh square feet, which is in the nascent stages of construction. It is also constructing a student housing project in Bangalore, which will be completed by June-July 2023 and entirely leased to Jain University. JIPL has recently bagged one engineering, procurement and construction (EPC) contract worth Rs. 125 crore for pre-cast works, which is expected to be executed over the next two years.

Adequate funding available for the projects under development – JIPL received an equity infusion of Rs. 27.5 crore in FY2021 from its existing investors for the student housing and Sanand project. For the Sanand project, Rs. 49.5 crore has been sanctioned by the UK-based Reall Ltd., under the external commercial borrowings route (ECB). The ECB loan from Reall Ltd carries favourable terms, including moratorium for both interest and principal repayments in FY2025.

Credit challenges

Execution and market risk for affordable housing project – The company recently started an affordable housing project in Sanand, in Gujarat. The project construction was postponed by around 9 months due to delay in receipt of various approvals. The construction of phase 1 of the project has started in December 2022 and it is expected to be launched in Q1 FY2024, with phase I being funded through external debt and equity. The market response after its launch will remain a key monitorable. However, the risk is partly mitigated by the payment schedule for land consideration, which is linked to the collections from customers' advances. Further, the company has received the revised repayment schedule for debt sanction of the Sanand project. As per the revised terms, the repayments will start from September 2024 as against January 2024.

Small scale of operations and low profitability inherent in projects targeted at lower income segment – The scale of business has been small during the last two years and is expected to remain at a similar level in FY2023. The operational cash flows will be constrained until the Sanand project is launched and adequate sales are tied up. Further, the projects aimed at these target groups inherently have lower margins. In addition, the low scale of operations results in inadequate absorption of fixed overheads and weak profitability. Nonetheless, the company plans to scale up construction/supply contracts for pre-cast concrete elements, which can provide some support to the cash flows from real estate operations. JIPL is appointed as a civil contractor by JSW for one of its steel plants, having a contract value of Rs. 125 crore with an execution period of two years.

Liquidity position: Adequate

JIPL's liquidity position is adequate, supported by the cash and bank balance of Rs. 33.0 crore as on December 31, 2022, which includes an amount of Rs. 25.0 crore drawn from term loans. The unencumbered cash balance stood at Rs. 7.8 crore as on December 31, 2022, with repayment obligation of Rs. 1.1 crore and Rs. 3.8 crore in FY2023 and FY2024, respectively, which can be serviced through its estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade JIPL's rating if there is a significant improvement in the scale of operations and improvement in profitability with timely launch of projects, along with healthy pace of bookings and collections on a sustained basis.

Negative factors – ICRA could downgrade JIPL's rating if there is any delay in launch or construction of projects, resulting in deterioration of coverage metrics and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Real Estate Methodology Rating Methodology for Debt backed by lease rentals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered consolidated financials of JIPL, Janaadhar South1 Projects LLP and Janaadhar Western Projects LLP, given the close business, financial and managerial linkages among them.

About the company

JIPL, incorporated in 2007, is involved in the development of affordable housing projects to address the home ownership aspirations of the lower income urban population by providing a complete housing solution that is affordable, of high quality and has accessible housing finance. It was promoted by Mr. Ramesh Ramanathan, who is also the promoter of Jana Holdings Limited and a director in Jana Small Finance Bank Limited. The promoter holds stake in this company through Jana Urban

Foundation (JUF), which holds 50.3% stake as on date with other major shareholders being Tree Line Asia Master Fund (Singapore) Private Limited with 12.3% share and Sterling Developers with 11.3% share. The remaining shares are held by individual investors— Mr. Narayan Ramachandran, Mr. Vikram Gandhi, Mr. Vallabh Bhansali, Mr. Badri Narayan Pilinja, and Sri Vatsa Krishna. The JKR student housing project is being executed under a special purpose vehicle (SPV) – Janaadhar South1 Projects LLP, and the Sanand project is being executed under an SPV named Janaadhar Western Projects LLP.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	8.0	15.5
PAT	-6.4	0.2
OPBDIT/OI	-62.5%	2.5%
PAT/OI	-79.9%	1.0%
Total outside liabilities/Tangible net worth (times)	1.6	1.1
Total debt/OPBDIT (times)	-5.7	65.9
Interest coverage (times)	-2.7	0.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
							Feb 21, 2023	Dec 3, 2021	
1	Unallocated	Long-term	30.0	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)
2	NCD	Long term	-	-	-	-	[ICRA]BB+ (Positive) withdrawn	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated	Not applicable

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](https://www.icra.in)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	NA	30.0	[ICRA]BB+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	JIPL's Ownership	Consolidation Approach
Janaadhar (India) Private Limited	100.00%	Full Consolidation
Janaadhar South1 Projects LLP	90.00%	Full Consolidation
Janaadhar Western Projects LLP	73.00%	Full Consolidation

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