December 16, 2024

Aparna Constructions and Estates Private Limited: Rating upgraded to [ICRA]A+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	930.00	1233.20	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Long-term – Fund-based – Cash credit	50.00	0.00	-
Long-term – Unallocated limits	253.20	0.00	-
Total	**1,233.20**	**1,233.20**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Aparna Constructions and Estates Private Limited (ACEPL) factors in the significant improvement in its financial risk profile with improvement in cash flow from operations (CFO) and leverage metrics in FY2024, which is expected to sustain in FY2025 and further improve in FY2026, supported by strong collections, good sales velocity and healthy construction progress. In FY2024, the area sold increased by 20.6% YoY to 7.6 million square feet (msf) (FY2023: 6.3 msf) and collections grew by 17% YoY to ~Rs. 4,000 crore. ACEPL's CFO has more than doubled to Rs. 564 crore in FY2024 (FY2023: Rs. 219 crore), which is expected to largely sustain in FY2025 and grow by 22-24%% YoY in FY2026. Consequently, the company's leverage metric (total debt/CFO) improved to 3.0 times as of March 2024 (PY: 6.5 times) and is projected at similar levels as of March 2025 and below 2.5 times in the medium term. The total debt/net working capital (TD/NWC) ratio has improved to 73% in FY2024 (PY: 84%). ACEPL's adequacy of committed cash flows remained comfortable at 67%, against the pending construction cost and outstanding debt as on October 31, 2024, owing to healthy sales velocity from the ongoing projects. ACEPL has also completely leased its commercial properties – Neo Mall and Aparna IT Park, translating to rentals of around Rs. 30-35 crore per annum. At present, Aparna IT Hub is under-construction, which is scheduled to be completed in H1 FY2026. There is no debt outstanding against the commercial projects and it plans to not avail any debt for commercial portfolio.

The rating draws comfort from the established track record of the Aparna Group delivering more than ~29 msf of area over three decades in the Hyderabad region. Moreover, backward-integrated operations with the Group company – Aparna Enterprises Limited (AEL, rated [ICRA]A- (Stable)/[ICRA]A2+), which provides building materials, leads to improved control over cost and quality.

The rating is, however, constrained by the market risk for the ongoing and recently launched large-sized projects – Synergy, Greenscapes, Newlands, Sarovar Towers and Sunstone (ACEPL's share of ~15.0 msf) and sizeable ready to move in inventory of completed projects estimated at Rs. 700-750 crore. Nevertheless, the established presence in the industry and its strong brand reputation in Hyderabad market mitigates the risk to an extent. The company is exposed to moderate execution risk for the newly launched projects. However, comfort can be driven by the strong execution capabilities and timely delivery of projects demonstrated by the Group over the past three decades. The rating is constrained by the geographical concentration risk, as the ongoing development is primarily limited to Hyderabad. The Group has attempted to venture out in new geographies but had limited success. ACEPL also remains exposed to the inherent cyclicality in the real estate industry and vulnerability to external factors.

ICRA is given to understand that the promoters of Aparna Group in their individual capacity will acquire the Aparna Pharmaceuticals Private Limited (APPL), which is 100% subsidiary of ACEPL in a phased manner during FY2025-FY2027. This is expected to result in Rs. 400-450 crore inflows for the company, which can be utilised for working capital facilities or prepayment of debt, etc, which will remain a monitorable.

The Stable outlook on the rating reflects ICRA's expectation that the company will continue to maintain healthy sales and collections across majority of its projects resulting in an improvement in cash flows from operations and leverage position, while maintaining adequate liquidity position.

Key rating drivers and their description

Credit strengths

Significant improvement in CFO and leverage metrics in FY2024; expected to sustain in FY2025 and further improve in FY2026 – In FY2024, the area sold increased by 20.6% YoY to 7.6 msf (FY2023: 6.3 msf) of area and collections grew by 17% YoY to ~Rs. 4,000 crore. ACEPL's CFO has more than doubled to Rs. 564 crore in FY2024 (FY2023: Rs. 219 crore), which is expected to largely sustain in FY2025 and grow by 22-24%% YoY in FY2026. Consequently, the company's leverage metric (total debt/CFO) improved to 3.0 times as of March 2024 (PY: 6.5 times) and is projected to be at similar levels as of March 2025 and below 2.5 times in the medium term. Its total debt/net working capital (TD/NWC) ratio has improved to 73% in FY2024 (PY: 84%).

Established track record and strong brand presence of Aparna Group in Hyderabad market – ACEPL's adequacy of committed cash flows remained comfortable at 67%, against the pending construction cost and outstanding debt as on October 31, 2024, owing to healthy sales velocity from the ongoing projects. In addition, it has completely leased the commercial properties – Neo Mall and Aparna IT Park, translating to rentals of around Rs. 30-35 crore per annum. At present, Aparna IT Hub is under-construction, which is scheduled to be completed in H1 FY2026. There is no debt outstanding against the commercial projects and the company plans to not avail any debt for its commercial portfolio. The rating draws comfort from the established track record of the Aparna Group delivering more than ~29 msf of area over three decades in the Hyderabad region. Moreover, backward-integrated operations with the Group company AEL (rated [ICRA]A- (Stable)/[ICRA]A2+), which provides building materials, leads to improved control over cost and quality.

Credit challenges

Exposed to market risk for recently launched projects and moderate execution risk – The company is exposed to market risk for the ongoing and recently launched large-sized projects – Synergy, Greenscapes, Newlands, Sarovar Towers and Sunstone (ACEPL's share of ~15.0 msf) and sizeable ready to move in inventory of completed projects estimated at Rs. 700-750 crore. However, the established presence in the industry and its strong brand reputation in Hyderabad market mitigates the risk to an extent. It is exposed to moderate execution risk for the newly launched projects. However, comfort can be driven by the strong execution capabilities and timely delivery of projects demonstrated by the Group over the past three decades.

Susceptibility to inherent risks in the real estate sector – The company is exposed to high geographical concentration risk, as the ongoing development is primarily limited to Hyderabad. The Group has attempted to venture out in new geographies but had limited success. The real estate sector is cyclical and has a highly fragmented market structure because of a large number of regional players. In addition, being a cyclical industry, the sector is highly dependent on macroeconomic factors, which exposes its sales to any downturn in demand.

Liquidity position: Adequate

The company's liquidity position is adequate. ACEPL has an undrawn debt of Rs. 870.0 crore and unencumbered cash balance of Rs. ~99.0 crore available as on September 30, 2024. It has debt repayment obligations of Rs. 400-450 crore (includes accelerated payments) in FY2025 and FY2026, which can be comfortably met through its estimated cash flow from operations.

Rating sensitivities

Positive factors – The rating might be upgraded, in case of improved diversification in the business profile and significant growth in sales and collections in ACEPL's project portfolio resulting in robust growth in cash flow from operations, lower reliance on debt funding and improvement in leverage metrics on a sustained basis. Specific credit metrics that could lead to an upgrade include Total Debt/CFO remaining below 1.75 times on a sustained basis.

Negative factors – Pressure on ACEPL's rating could arise if the company's cash flow or leverage position is impacted by any sustained weakness in sales of ongoing and upcoming projects or large debt-funded investments. Further, the material increase in non-core investments and associated debt-funded capex (if any) will be a credit negative. Specific credit metrics that could lead to a downgrade include Total Debt/CFO remaining above 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Commercial/Residential/Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's consolidated financial statements. List of entities which are consolidated are shown in Annexure II.

About the company

Aparna Constructions and Estates Private Limited is the flagship company of the Aparna Group and was incorporated in 1996 by Mr. S. Subrahmanyam Reddy and Mr. C. Venkateswara Reddy to undertake real estate development in Hyderabad. It is among the top two developers of residential real estate in Hyderabad. With almost three decades of experience, the Aparna Group has expanded its portfolio to 80 projects, of which 69 are residential properties and 11 are commercial and retail spaces across Telangana, Andhra Pradesh and Karnataka. The portfolio comprises fully-integrated gated communities of apartments, villas, plot layouts, commercial and retail projects. The Group holds a land bank of more than ~422 acres as on March 31, 2024, under various companies and is backward integrated through Aparna Enterprises Limited, which manufactures ready-mix concrete, UPVC doors and windows and tiles to have better control over cost and quality.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	3,004.9	3,928.1
PAT	560.4	550.3
OPBDIT/OI	29.1%	26.8%
PAT/OI	18.6%	14.0%
Total outside liabilities/Tangible net worth (times)	1.4	1.3
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	7.1	7.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	1233.20	Dec 16, 2024	[ICRA]A+ (Stable)	Mar 19, 2024	[ICRA]A (Stable)	-	-	Mar 28, 2022	[ICRA]A (Stable)
					April 10, 2023	[ICRA]A (Stable)			Jan 31, 2022	[ICRA]A (Stable)
Cash credit	Long term	-	Dec 16, 2024	-	Mar 19, 2024	[ICRA]A (Stable)	-	-	Mar 28, 2022	[ICRA]A (Stable)
					April 10, 2023	[ICRA]A (Stable)			Jan 31, 2022	[ICRA]A (Stable)
Unallocated limit	Long term	-	Dec 16, 2024	-	Mar 19, 2024	[ICRA]A (Stable)	-	-	Mar 28, 2022	[ICRA]A (Stable)
					April 10, 2023	-			Jan 31, 2022	[ICRA]A (Stable)

Complexity level of the rated instruments

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	FY2022	-	FY2029	1233.20	[ICRA]A+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	ACEPL Ownership	Consolidation Approach
Aparna Infrahousing Private Limited	66.72%	Full Consolidation
Aparna Meadows Private Limited	100.00%	Full Consolidation
Aparna Pharmaceuticals Pvt Ltd	100.00%	Full Consolidation

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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