

May 27, 2022

Aparna Enterprises Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan	203.60	179.00	[ICRA]A- (Stable); Reaffirmed
Fund-Based Cash Credit	160.00	160.00	[ICRA]A- (Stable); Reaffirmed
Short-Term Non-Fund-Based	25.00	25.00	[ICRA]A2+; Reaffirmed
Long Term - Unallocated	6.40	18.77	[ICRA]A- (Stable); Reaffirmed
Long Term/ Short Term – Unallocated	0.00	115.00	[ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed
Total	395.00	497.77	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the AEL's healthy operational profile characterised by a diversified product portfolio across various building materials and its established presence as a key supplier of Ready-Mix Concrete (RMC) and Unplasticised Polyvinyl Chloride (UPVC) products in the Hyderabad market. The rating also considers the strong brand of the Aparna Group as a reputed real estate player in Hyderabad. Further, AEL's backward integrated operations, with presence in aggregates for the RMC division, in-house profile manufacturing unit for the UPVC division and the feldspar and clay processing units for the tiles division, which provide better control over cost and quality. The ratings also favourably factor in strong revenue growth with CAGR of 20% between FY2017-FY2022, driven by increasing penetration of RMC and UPVC products in the key markets along with the ramp-up of tiles manufacturing operations in the past three years. AEL reported revenues of around Rs. 1084 crore (provisional) in FY2022, higher by 37%, driven by an increase in revenues across divisions – RMC, UPVC and tiles. AEL has completed installation of Glazed Vitrified Tiles (GVT) plant with capacity of 3.85 million sqm in December 2021. This, along with the proposed acquisition of the tiles plant in the Morbi region and the planned expansion in the UPVC segment in a phased manner over the next three years are expected to drive revenue growth in the medium term.

The ratings are, however, constrained by the vulnerability of AEL's profitability to fluctuations in key input costs (across divisions), sizeable working capital requirements due to a high receivable cycle in the RMC division and inventory holding requirements in the UPVC and tiles divisions and subdued return indicators to high investments in tiles division. The promoters have a demonstrated track record of timely equity infusion over the years to meet any shortfall in the working capital requirements.

The significant increase in the input costs put pressure on operating margins in FY2022, which are estimated to decline to around 8-8.5% from 10.2% in FY2021. Pressure on margins along with the debt-funded capex towards the tiles division is estimated to keep Total Debt/OPDBITA at around 3.5-4.0x times as on March 2022. Ramp-up in production of higher margin GVT products, price increases undertaken in the RMC division in April – May 2022 and incorporation of price variation clauses across product categories in contracts with projects with relatively longer tenure are expected to support improvement in the operating margins going forward. Despite the debt-funded acquisition / capex plans, the leverage and debt coverage metrics are expected to be supported by an improvement in revenues and operating margins going forward. The ratings are also constrained by the intense competition in the building materials segment and the high geographical concentration, given that its operations are exposed to cyclicity in the real estate market in Hyderabad, which are mitigated to some extent by AEL's established presence in the industry and its strong association with other large real estate developers in the Hyderabad market.

The Stable outlook on [ICRA]A- rating reflects ICRA's opinion that AEL is expected to continue to benefit from its established market position and strong brand visibility of the Aparna Group in the Hyderabad market.

Key rating drivers and their description

Credit strengths

Established presence and strong brand visibility of Aparna Group in Hyderabad real estate market – The Aparna group, through its flagship entity Aparna Constructions and Estates Private Limited (ACEPL, rated [ICRA]A (Stable)), enjoys a strong brand as a quality real estate developer in the Hyderabad market with a demonstrated track record of completion of construction of more than 20 million square feet of development area. AEL serves as a backward integrated entity for the Group in terms of manufacturing key building materials with ~25-30% of AEL's sales contributed by the Aparna Group. The Group's established presence in the real estate market has helped the company to expand its product profile over the years.

Diversified revenue profile; recent expansion in tiles division along with the proposed acquisition of tiles plant in Morbi region and expansion in the UPVC segment to drive revenue growth in medium term – AEL's revenue profile is diversified with presence across various building materials namely RMC, UPVC Profiles, UPVC Doors and Windows and Tiles. The company is one of the key suppliers of RMC and UPVC in the Hyderabad market. AEL reported strong revenue CAGR of 20% between FY2017-FY2022, driven by increasing penetration of RMC and UPVC products in the key markets along with a ramp-up of tiles manufacturing operations in the past three years. AEL reported revenues of around Rs. 1084 crore (provisional) in FY2022, higher by 37%, driven by an increase in revenues across divisions – RMC, UPVC and tiles. AEL has commenced operations of GVT tiles plant of 3.85 million sqm in December 2021. This, along with the proposed acquisition of tiles plant in Morbi, the expansion in the UPVC segment in a phased manner over the next three years - profiles from current capacity of 5400 MT to 16,200 MT and UPVC doors and windows from the current 3.55 lakh square feet to 7 lakh square feet is expected to drive revenue growth in the medium term.

Backward integrated operations provide better control over cost and quality – AEL's operations are backward integrated to a large extent across all its business divisions. The company has quarries and crushing plants for aggregates (required for RMC division), feldspar processing unit, clay processing unit and mines (for Tiles division) and in-house profile manufacturing division for the UPVC segment. The company also plans to set up an aluminium extrusion facility over the next two years to cater the requirements of the aluminium doors and windows in Aparna-Craft Exteriors Private Limited. The backward integration provides better control over cost, quality and timely availability of the material for production.

Credit challenges

Profitability exposed to movement in key input costs; operating margins estimated to decline in FY2022 – The operating margins in the RMC and UPVC division are exposed to volatility in cement and PVC prices, respectively, given that most orders are fixed price in nature. However, the company passes on the raw material price increase to a certain extent via negotiation with the customers. Under tiles division, the profitability from the tiles manufacturing unit remains vulnerable to fluctuation in input costs - predominantly gas prices given that fuel cost constitutes a substantial proportion of the cost structure of the tiles division. The significant increase in the input costs have put pressure on operating margins in FY2022, which are estimated to decline to around 8.0-8.5% in FY2022 from 10.2% in FY2021. Pressure on margins along with the debt-funded capex towards tiles division is estimated to keep Total Debt/OPDBITA at 3.5-4.0x times as on March 2022. Ramp-up in the production of higher margin GVT products, price increases undertaken in the RMC division in April – May 2022 and the incorporation of price variation clauses across product categories in contracts with projects with relatively longer tenure are expected to support improvement in the operating margins going forward. Despite debt funded acquisition / capex plans, the leverage and debt coverage metrics are expected to be supported by an improvement in revenues and operating margins going forward.

Exposure to intense competition and concentration risks – All the key business divisions of AEL remain exposed to intense competition from organised as well as unorganised players. However, the strong brand visibility and the established association with key real estate players have helped the company to establish itself as one of the major suppliers of RMC and UPVC in the region. Further, despite the intense competition in the tiles division, the company has been able to ramp up its operations over the last three years. AEL's operations remain exposed to increased geographical and segmental concentration

risks as its business prospects are linked to cyclicalities associated with the real estate market in Hyderabad. However, the expansion of the dealer network (for Tiles and UPVC divisions) to various states across the country is likely to reduce the geographical concentration risks in the medium term.

Subdued return indicators due to high investment in tiles division and low capacity utilisation in RMC division – Despite the steady performance across business divisions over the years, the return indicators continue to be subdued as reflected by modest RoCE levels of 6-10%. This is largely due to the low capacity utilisation in the RMC division and the high investments in the tiles division over the years, which includes provision towards future expansion from which returns are yet to be realised.

Sizeable working capital requirements of the business – AEL’s working capital requirements continue to remain high owing to a relatively increased receivable cycle in the RMC division coupled with the inventory holding requirements in the UPVC and tiles segments divisions. The promoters have a demonstrated track record of timely equity infusion over the years to meet any shortfall in the working capital requirements.

Liquidity position: Adequate

AEL’s liquidity is adequate. The company has long-term debt repayment obligations of Rs. 50.25 crore for FY2023. While the utilisation of the working capital facilities remains high, the company has a demonstrated track record in terms of its ability to bring in fresh capital in the form of the promoter’s equity as demonstrated by infusion of Rs. 69.9 crore in the period FY2018-FY2022 towards funding requirements apart from internal accruals generated. The company plans to incur a capex over Rs. 200.0 crore spread over the period between FY2023-FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade AEL’s rating if the company demonstrates a healthy improvement in the revenue and profitability across all the divisions along with improvement in liquidity position. Specific credit metrics that could lead to an upgrade of AEL’s rating include Total Debt/ OPBITDA below 2.0x on a sustained basis.

Negative factors – Negative pressure on AEL’s rating could arise if its competitive position weakens exerting pressure on profitability or if it undertakes any higher-than-anticipated debt funded capex adversely impacting the leverage and coverage metrics. Specific credit metrics that would lead to downgrade would signify a DSCR lower than 1.4x on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the rated entity. Please refer to the table below for details of consolidated entities

About the company

Aparna Enterprises Ltd. (AEL), incorporated in 1994 by Mr. S. Subrahmanyam Reddy and Mr. K. Sita Rama Raju, commenced operations as a tiles distributor. In 2006, AEL ventured into manufacturing of building materials and commenced production of RMC with a capacity of 52 cubic metre/hour and over the years has expanded to its current capacity of 468 cubic metre/hour. At present, the company operates 19 RMC plants in Hyderabad (12), Bengaluru (4), Visakhapatnam (2) and Vijayawada (1). In 2008, it commenced production of UPVC windows and doors. AEL is also involved in trading of luxury sanitary ware. In FY2017-18, the company set up a tiles manufacturing unit with an installed capacity of 54.75 lakh sqm/annum, which commenced operations in July 2017. In FY2022, AEL expanded its tiles division by setting up Glazed Vertified Tiles (GVT) division with a total capacity of 38.5 lakh sqm per annum, which is operational from December 2021.

Key financial indicators (audited)

AEL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	760.4	799.2
PAT (Rs. crore)	17.9	8.4
OPBDIT/OI (%)	12.2%	10.2%
PAT/OI (%)	2.3%	1.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.6
Total Debt/OPBDIT (times)	3.2	3.4
Interest Coverage (times)	3.1	3.1

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

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
							March 31, 2021	March 10, 2021	
					May 27, 2022	-			Nov 29, 2019
1	Cash Credit	Long-term	160.00	--	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Term Loan	Long-term	179.00	179.00	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Non-Fund Based Limits	Short-Term	25.00	--	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated Limits	Long term	18.77	--	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
5	Unallocated	Long term-Short term	115.00	--	[ICRA]A-(Stable)/[ICRA]A2+	-	-	-	-
6	Proposed Term Loan	Long term	-	-	-	-	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Instrument Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Short term – Non-fund based	Very Simple

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	160.00	[ICRA]A-(Stable)
NA	Term Loan	NA	NA	NA	179.00	[ICRA]A-(Stable)
NA	Non-Fund Based Limits	NA	NA	NA	25.00	[ICRA]A2+
NA	Term Loan – Unallocated	NA	NA	NA	18.77	[ICRA]A-(Stable)
NA	Long Term – Short Term – Unallocated	NA	NA	NA	115.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aparna Profiles Private Limited	100.00% (rated entity)	Full Consolidation
Rollform Technologies Private Limited	100.00%	Full Consolidation
Aparna Industries Limited	100.00%	Full Consolidation
Aparna Mines & Minerals(P) Ltd	100.00%	Full Consolidation
Aparna Realty Pvt Ltd	100.00%	Full Consolidation
Aparna Ceramic Tiles Pvt Ltd	100.00%	Full Consolidation
Aparna Property Holdings (P) Ltd	100.00%	Full Consolidation
Aparna Craft-Exteriors Private Limited	74%	Full Consolidation

Source: AEL annual report FY2021

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