

January 25, 2023

Aparna-Craft Exteriors Private Limited: Ratings reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	5.00	5.00	[ICRA]BBB+(CE)(Negative); reaffirmed and outlook revised to Negative from Stable
Non Fund based	25.00	25.00	[ICRA]A2(CE); reaffirmed
Total	30.00	30.00	
Rating Without Explicit Credit Enhancement			[ICRA] BBB-/ [ICRA]A3

*Instrument details are provided in Annexure-I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The ratings of [ICRA]BBB+(CE) (Negative) for the long-term fund-based working capital facility of Rs. 5.0 crore and [ICRA]A2(CE) for the Rs. 25.0-crore non-fund-based facility of Aparna-Craft Exteriors Private Limited (ACPL) is based on strength of corporate guarantee provided by Aparna Enterprises Ltd. (AEL; rated at [ICRA]A- (Negative)/[ICRA]A2+). The Negative outlook on this rating reflects ICRA's outlook on the rating of the guarantor, AEL.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by Aparna Enterprises Ltd. in favour of the said facility. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated facility, and has the other relevant attributes specified in ICRA's methodology for considering a credit enhancement, the payment mechanism is post-default in nature. Taking cognizance of the above, ICRA has assigned a rating of [ICRA]BBB+ (CE) (Negative)/[ICRA] A2(CE) to the said facility against the Unsupported Rating of [ICRA]BBB-/ [ICRA]A3 [and in relation to the guarantor's rating of [ICRA]A- (Negative)/[ICRA]A2+]. In case the rating of the guarantor or the Unsupported Rating of ACPL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this facility may also undergo a change in a scenario whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- » ACPL shall not avail any further loan from any other bank/FI without the lender's approval;
- » Shareholding of AEL in ACPL to be maintained at a minimum level of 74%;
- » Any unsecured loans to the company will be subservient to bank loan;
- » In case, ACPL defaults on payments scheduled to be made to the lender on the specified due date, then the guarantee provided by the guarantor will be considered to have been invoked, in which case, the guarantor will be obligated to service the dues within seven (7) days from the date of such default;

Key rating drivers and their description

Credit strengths

Corporate guarantee given by AEL – The rated bank facilities of Rs. 30.0 crore of ACPL are backed by the strength of corporate guarantee provided by AEL.

Established presence and strong brand visibility of Aparna Group in Hyderabad real estate market – AEL is a part of the Aparna Group, which has a strong brand visibility as a quality real estate developer in the Hyderabad market. It serves as a backward-integrated entity for the Group in terms of manufacturing key building materials. Further, the technical expertise of the Joint Venture (JV) partner, Craft Group (Craft Investments SE Asia Limited), is expected to support the company's operations.

Credit challenges

Modest scale of operations with limited track record – ACPL commenced commercial operations in FY2020. The company reported modest operating income of Rs. 36.6 crore in FY2022 (FY2021: Rs. 6.4 crore) and is expected to report revenues of Rs. 80-85 crore in FY2023. The profitability is exposed to movement in key input costs given that most orders are fixed price in nature.

High dependence on performance of real estate sector – Demand for facades and exteriors depends on the performance of the commercial real-estate sector, while the aluminium division depends on the residential real estate sector, which exposes ACPL's performance to any slowdown in the end-user segment.

Liquidity position: Adequate

For the [ICRA]BBB+(CE) (Negative)/[ICRA]A2 (CE) rating: Adequate

AEL's liquidity position is adequate. It has long-term debt repayment obligations of Rs. 43.8 crore for FY2023 and Rs. 52.7 crore in FY2024 which are expected to be serviced through its estimated cash flow from operations. While the utilisation of the working capital facilities remains high, there is a demonstrated track record of promoters infusing fresh capital towards working capital requirements and margin for capex. The company has capex plans of Rs. 55-60 crore in FY2023-FY2024 towards UPVC division, profiles division which will be funded by debt of Rs. 40.25 crore which is already sanctioned and balance through internal accruals.

For the [ICRA]BBB-/ [ICRA]A3 rating: Adequate

ACPL's liquidity position is adequate. The average working capital utilization is around 91% for last 12 months ending October 2022. Further, it has secured an enhancement in its working capital limits to Rs 15.0 crore from Rs 5.0 crore in December 2022. ACPL does not have any long-term debt repayment obligations and there are no major capex plans in medium term.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the entity demonstrates significant growth in scale of operations and profitability resulting in improvement in coverage metrics and liquidity position on a sustained basis. Also, if there is any improvement in the credit profile of guarantor will be credit positive.

Negative factors – The rating could be downgraded if there is any deterioration in ACPL's earnings and debt coverage metrics on a sustained basis or if there is any deterioration in the credit profile of guarantor or any weakening of linkages with the guarantor, AEL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group support	Parent Company: Aparna Enterprises Limited The assigned rating draws comfort from the unconditional and irrevocable guarantee extended by the parent company, AEL
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ACPL

About the company

Aparna-Craft Exteriors Private Limited (ACPL), was incorporated in 2020 as a joint venture between AEL (74%) and Craft International (26%), Hong Kong, a world leader in façade and exterior design and engineering. ACPL executes projects related to facades and building exteriors with the help of technical know-how of its JV partner. Further, company has taken up fabrication orders for aluminium windows which was previously carried out by the UPVC division of AEL.

Key financial indicators (Audited)

DEPL Standalone	FY2021	FY2022
Operating income	6.4	36.6
PAT	-2.7	1.4
OPBDIT/OI	-38.6%	6.6%
PAT/OI	-42.7%	3.7%
Total outside liabilities/Tangible net worth (times)	166.0	38.3
Total debt/OPBDIT (times)	-0.7	1.5
Interest coverage (times)	-9.4	4.2

Source: ACPL; 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 Sep 30, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				25-Jan-2023	10-Jun-2022			
1 Fund based – Cash Credit	Long term	5.00	-	[ICRA]BBB+(CE) (Negative)	[ICRA]BBB+(CE) (Stable)	-	[ICRA]BBB+(CE) (Stable)	-
2 Non-Fund based	Short term	25.00	-	[ICRA]A2 (CE)	[ICRA]A2 (CE)	-	[ICRA]A2 (CE)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash Credit	Simple
Non-Fund Based	Very 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 No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund based – Cash Credit	NA	NA	NA	5.0	[ICRA]BBB+(CE) (Negative)
NA	Non-Fund Based	NA	NA	NA	25.0	[ICRA]A2 (CE)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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Branches



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