January 25, 2023

Aparna Enterprises Ltd.: 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
Long term – Fund-based – Term loan	179.00	179.00	[ICRA]A- (Negative); reaffirmed and outlook revised to Negative from Stable
Long term – Fund-based – Cash Credit	160.00	160.00	[ICRA]A- (Negative); reaffirmed and outlook revised to Negative from Stable
Short Term – Non-Fund-Based	25.00	25.00	[ICRA]A2+; reaffirmed
Long term – Unallocated	18.77	18.77	[ICRA]A- (Negative); reaffirmed and outlook revised to Negative from Stable
Long Term/Short Term – Unallocated	115.00	115.00	[ICRA]A- (Negative)/ [ICRA]A2+; reaffirmed and outlook on long-term rating revised to Negative from Stable
Total	**497.77**	**497.77**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Negative for Aparna Enterprises Ltd (AEL) factors in the expected decline in operating margins to 6.5-6.7% in FY2023 from 9.3% in FY2022 due to increase in key raw material prices across divisions and increase in power and fuel(Natural gas/LPG) expenses. This is anticipated to result in moderation of leverage and debt coverage metrics for FY2023. While the revenues are estimated to improve by 15-20% in FY2024 and operating margins to around 8.3-8.7%, however, the same is likely to remain lower than historical levels (9.3-11.6% during FY2020-FY2022).

The ratings continue to factor in AEL's healthy operational profile characterised by a diversified product portfolio across various building materials and its established presence as a key supplier of RMC and Unplasticised Polyvinyl Chloride (UPVC) products in the Hyderabad market and tiles in the South Indian market. The rating 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, the feldspar and clay processing units for the tiles division, provide better control over cost and quality. The ratings also favourably note the compounded annual growth rate (CAGR) of 19.1% in revenues over FY2018-FY2022, driven by increasing penetration of RMC and UPVC products in the key markets along with increased penetration of Aparna's tiles brand in South India. AEL's expansion plan of RMC division in new micro markets of Hyderabad, the planned expansion in the UPVC segment and entry into new geographies for tiles through contract manufacturing in a phased manner over the next three years are expected to drive medium term revenue growth.

The ratings are, however, constrained by the vulnerability of AEL's profitability to fluctuations in key input costs (across divisions), sizeable working capital requirements on account of a high receivable cycle, inventory holding requirements and modest return on capital employed due to low-capacity utilisation in RMC division and subdued returns in tiles division owing to high investments in it over the years. However, the promoters have a demonstrated track record of timely equity infusion over the years (Rs. 77.4 crore infused by promoters during FY2020-9M FY2023) to meet any shortfall in the working capital requirements and to fund capex. The ratings are constrained by the intense competition in the building materials segment constraining pricing flexibility and high geographical concentration, given that AEL's operations are exposed to cyclicality in the real estate market in Hyderabad, which are mitigated to some extent by its established presence in the industry and its strong brand reputation.

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 developing more than 20 million square feet of area. AEL serves as a backward integrated entity for the Group in terms of manufacturing key building materials with ~30-35% 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 with expansion in tiles division and UPVC division 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 in Hyderabad market and Tiles in South Indian market. AEL reported strong revenue CAGR of 19.1% between FY2018-FY2022, driven by increasing penetration of RMC and UPVC products in the key markets along with increased penetration of Aparna's tiles brand in South India. AEL's expansion plan of RMC division in new micro markets of Hyderabad, the planned expansion in the UPVC segment and entry into new geographies for tiles through contract manufacturing in a phased manner over the next three years are expected to drive medium term revenue growth.

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 backward integration provides better control over cost, quality, and timely availability of the material for production.

Credit challenges

Moderation in operating margins, leverage, and coverage metrics – AEL's profitability remains exposed to movement in raw material prices across divisions as most of the orders are fixed price in nature. However, it passes on the raw material price hikes to a certain extent via negotiation with customers. Its operating margins are estimated to decline to 6.5-6.7% in FY2023 from 9.3% in FY2022 due to increase in key raw material prices across divisions and increase in power expenses. This is likely to result in moderation of leverage and coverage metrics for FY2023. The company's revenues are estimated to improve by 15-20% in FY2024 and operating margins to around 8.3-8.7%. However, the same is anticipated to remain lower than the historical levels (9.3-11.6% during FY2020-FY2022).

Modest RoCE 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 remain subdued as reflected by modest RoCE levels of 6.5%-9.4% during FY2020-FY2022. This is largely due to the low-capacity utilisation in the RMC division and subdued returns in tiles division owing to the high investments in it over the years.

Sizeable working capital requirements of the business; 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 cyclicality 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. 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 (Rs. 77.4 crore infused by promoters during FY2020-9M FY2023) to meet any shortfall in the working capital requirements and to fund capex.

Liquidity position: 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 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.

Rating sensitivities

Positive factors – ICRA could revise the outlook to stable if there is significant improvement in revenues and profitability across all divisions resulting in improvement in coverage metrics and liquidity position.

Negative factors – Negative pressure on AEL's rating could arise if there is continuous 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 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity. Please refer to Annexure II 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. Over the years, it has expanded to its current capacity of 468 cubic metre/hour. At present, the company operates 21 RMC plants in Hyderabad (14), Bengaluru (5) and Visakhapatnam (2). 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)

Consolidated	FY2021	FY2022
Operating income	791.7	1,151.1
PAT	8.4	13.4
OPBDIT/OI	9.4%	9.3%
PAT/OI	1.1%	1.2%
Total outside liabilities/Tangible net worth (times)	1.6	2.1
Total debt/OPBDIT (times)	3.5	3.2
Interest coverage (times)	2.9	3.7

Source: AEL, ICRA Research; 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 of Dec 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Jan 25, 2023	May 27, 2022	-	Mar 31, 2021	Mar 10, 2021	Nov 29, 2019
1	Term loans	Long term	179.00	179.00	[ICRA]A- (Negative)	[ICRA]A- (Stable)		[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Cash Credit	Long term	160.00	-	[ICRA]A- (Negative)	[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+	[ICRA]A2+
4	Unallocated Limits	Long term	18.77	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)		[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5	Unallocated Limits	Long term/ Short term	115.00	-	[ICRA]A- (Negative)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based – Term loan	Simple
Long term – Fund-based – Cash Credit	Simple
Short Term – Non-Fund-Based	Very Simple
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

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2021	NA	FY2026	179.00	[ICRA]A- (Negative)
NA	Cash Credit	NA	NA	NA	160.00	[ICRA]A- (Negative)
NA	Non-Fund Based Limits	NA	NA	NA	25.00	[ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	18.77	[ICRA]A- (Negative)
NA	Unallocated Limits	NA	NA	NA	115.00	[ICRA]A- (Negative)/[ICRA]A2+

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	Ownership	Consolidation Approach
Aparna Profiles Private Limited	100.00%	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	74.00%	Full Consolidation
Aparna Transport LLP	51.00%	Full Consolidation

Source: Company Data

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4547 4829
anupama.reddy@icraindia.com

Abhishek Lahoti
+91 40 4547 4829
abhishek.lahoti@icrainia.com

D Mohammed Rabbani
+91 40 4547 4829
d.rabbani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches