

January 25, 2023

Aparna Profiles Pvt. Ltd: Rating 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 | 12.00 | 12.00 | [ICRA]A-(CE) (Negative); reaffirmed and outlook revised to Negative from Stable |
| Total | 12.00 | 12.00 | |
| Rating Without Explicit Credit Enhancement | | | [ICRA] BBB+ |

*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 rating of [ICRA]A- (CE) for the long-term fund based working capital facilities of Aparna Profiles Pvt. Ltd (APPL) is based on strength of corporate guarantee provided by Aparna Enterprises Ltd. (AEL, rated at [ICRA]A-(Negative)/[ICRA]A2+), the parent of APPL. 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 AEL 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. Yet, ICRA has assigned a rating of [ICRA]A-(CE) to the said facility against the Unsupported Rating of [ICRA]BBB+, and equivalent to the guarantor's rating of [ICRA]A- (Negative)/[ICRA]A2+ in view of the strong linkages between the entity and the guarantor. In case the rating of the guarantor or the Unsupported Rating of APPL were to undergo a change in future, the same would have a bearing on the CE 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

- » The guarantor shall not extend advances to group or subsidiaries without prior approval of the lender.
- » In case, APPL 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 from AEL – The rated bank facilities of APPL 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. AEL serves as a backward-integrated entity for the Group in terms of manufacturing key building materials. APPL is backward integrated entity to UPVC door and windows division of AEL.

Credit challenges

Moderate scale of operations – Notwithstanding an increase in the operating income by 77.5% YoY to Rs. 99.9 crore in FY2022 and expected revenues of Rs. 115-120 crore in FY2023, APPL's scale of operations remain moderate. The proposed capacity expansion by installing additional lines is expected to support APPL's growth over the medium term. Further, the profitability of the company is exposed to movement in PVC resin prices, given that most orders are fixed price in nature.

High dependence on performance of real estate sector – Demand for uPVC windows and doors depends on the performance of the real-estate sector, which exposes APPL to any slowdown in the end-user segment.

Liquidity position:

For the [ICRA]A-(CE) (Negative) 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 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+ rating: Adequate

APPL's average working capital utilization is around 92% of its sanctioned limits for the last 12-month period ending October 2022. Further, APPL has secured enhancement in its fund based working capital limits to Rs 20.0 crore in September 2022 from Rs 12.0 crore and it has cushion in working capital limits of around Rs. 6 crore as on October 31, 2022. The company has long-term debt repayment obligations of Rs. 3.6 crore and Rs. 7.5 crore for FY2023 and FY2024 which are expected to be met comfortably from cash flow from operations.

Rating sensitivities

Positive factors - ICRA could upgrade the rating if there is any improvement in the credit profile of the guarantor.

Negative factors - The rating could be downgraded if there is any deterioration in APPL'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 | Standalone |

About the company

APPL was incorporated in 2015 as a wholly owned subsidiary of AEL, to set up a UPVC profiles manufacturing unit to meet the raw material requirements of AEL's UPVC Windows and Doors division. The total cost incurred towards the unit was Rs. 14.88 crore and was funded by debt of Rs. 10.50 crore and equity of Rs. 4.38 crore and commenced operations in January 2016.

Key financial indicators (Audited)

| DEPL Standalone | FY2021 | FY2022 |
|--|--------|--------|
| Operating income | 56.3 | 99.9 |
| PAT | 2.1 | 2.7 |
| OPBDIT/OI | 12.8% | 9.9% |
| PAT/OI | 3.5% | 3.4% |
| Total outside liabilities/Tangible net worth (times) | 1.4 | 2.3 |
| Total debt/OPBDIT (times) | 1.6 | 2.1 |
| Interest coverage (times) | 5.9 | 5.1 |

Source: APPL; 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 | 27-May-2022 | | | |
| 1 Cash Credit | Long term | 12.00 | - | [ICRA]A-(CE)(Negative) | [ICRA]A-(CE)(Stable) | - | [ICRA]A-(CE)(Stable) | [ICRA]BBB+(CE)(Stable) |
| 2 Term Loan | Long term | 0.00 | - | - | - | - | [ICRA]A-(CE)(Stable) | [ICRA]BBB+(CE)(Stable) |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-------------|----------------------|
| Cash Credit | 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 | Cash Credit | NA | NA | NA | 12.00 | [ICRA]A-(CE)(Negative) |

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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