

April 10, 2023

Aparna Constructions and Estates Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - Term loans	708.45	733.20	[ICRA] A (Stable); reaffirmed
Long-term – Fund-based - Cash credit	50.00	50.00	[ICRA] A (Stable); reaffirmed
Long-term – Unallocated limits	24.75	-	-
Total	783.20	783.20	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Aparna Constructions and Estates Private Limited (ACEPL) draws comfort from the robust sales and collections during 7M FY2023 on account of healthy sales velocity of most of its projects, which is expected to continue in FY2023 and FY2024. During 7M FY2023, the company sold 4.8 million square feet (FY2022: 3.7 msf) of area and reported collections of Rs. 2,302 crore (FY2022: Rs. 2,612.0 crore) due to the favourable demand for the Group's offerings in the Hyderabad market. The collections are estimated to grow by ~30-32% YoY in FY2023, which is likely to result in comfortable leverage. of Total Debt/Cash flow from operations below ~2.0 times in FY2023 and FY2024. Further, ACEPL's committed cash flow remained healthy at 88%, against the pending construction cost and outstanding debt as on October 31, 2022, on a consolidated basis, owing to healthy sales in the newly launched projects.

The rating continues to draw comfort from the established track record of the Aparna Group delivering more than ~25 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-/Negative/A2+), which provides building materials, leads to improved control over cost and quality.

The rating is, however, constrained by market risk for the recently launched large-sized projects (6.5 msf). Moreover, the company is exposed to moderate execution risk as five out of the thirteen ongoing residential projects are below 30% construction progress. However, the risk is mitigated considering the strong execution capabilities demonstrated by the group in the past three decades. The company's Debt/Net Operating Working Capital ratio is high at 87%, which reduces the financial flexibility in case of any decline in sales and collection. 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 has had limited success.

The company forayed into commercial office space development in FY2020 and acquired fully operational bulk drug units of Lantech Pharmaceuticals Limited through its 100% subsidiary, Aparna Pharmaceuticals Private Limited (APPL) in FY2022 as part of its diversification strategy. Both the commercial projects and APPL are being funded through its internal accruals. Going forward, higher-than-expected investments in unrelated businesses and associated debt funding will be a credit negative. The Stable outlook on the rating reflects that the company will continue to benefit from the Aparna Group's long track record with a strong brand image in the Hyderabad real estate market and the ability to maintain healthy sales across majority of its projects.

Key rating drivers and their description

Credit strengths

Healthy sales and collections; comfortable leverage expected in FY2023 and FY2024 – In 7M FY2023, the company sold 4.8 msf (FY2022: 3.7 msf) and reported collections of Rs. 2,302 crore (FY2022: Rs. 2,612.0 crore) due to the favourable demand for the Group's offerings in the Hyderabad market. The collections are estimated to grow by ~30-32% YoY in FY2023, which is expected to result in a comfortable leverage of total debt/cash flow from operations below ~2.0 times in FY2023 and FY2024. Further, ACEPL's committed cash flow remained healthy at 88%, against the pending construction cost and outstanding debt as on October 31, 2022, on a consolidated basis owing to robust sales in the newly launched projects.

Healthy track record and strong brand presence of Aparna Group in Hyderabad market – The company launched project Cyber Heights in October 2022 and has sold ~40% units in just five months since the launch. Also, project Zenon (launched in January 2022) sold 55% (1,432 units) of area as of October 2022, showcasing its strong brand presence in the Hyderabad market. The Group has a proven track record of developing more than 25 msf of area over the period of three decades in Hyderabad, with a good reputation for quality and timely completion. Moreover, backward-integrated operations with AEL, which provides building materials, leads to improved control over cost and quality.

Credit challenges

Exposed to market risk for recently launched large projects and moderate execution risk – The rating considers market risk for the recently launched large-sized projects (6.5 msf). Moreover, the company is exposed to moderate execution risk as five out of the thirteen ongoing residential projects are below 30% construction progress. However, the risk is mitigated considering the strong execution capabilities demonstrated by the group in past three decades. The company's Debt/Net Operating Working Capital ratio is high at 87%, which reduces the financial flexibility in case of any decline in sales and collection. The rating is also constrained by the geographical concentration risk, as the ongoing development is largely limited to Hyderabad. The company has attempted to venture out to new geographies through project Elina and Mapple in Bengaluru and Amaravathy One in Vijayawada. Project Maple has received a good response from the market while for project Elina and Amaravathy, the success has been limited.

Significant non-core investments – The company forayed into commercial office space development in FY2020 and also acquired fully operational bulk drug units of Lantech Pharmaceuticals Limited through its 100% subsidiary, Aparna Pharmaceuticals Private Limited (APPL) in FY2022 as part of its diversification strategy. Both Commercial projects and APPL are being funded through internal accruals of the company. Going forward, higher than-expected investments in unrelated businesses and associated debt funding will be a credit negative.

Liquidity position: Adequate

The company's liquidity is adequate. ACEPL has an undrawn debt of Rs. 155.0 crore and unencumbered cash of ~Rs. 30.0 crore available as on October 31, 2022. It has repayment obligations in the range of Rs. 600-650 crore per annum in FY2024 and FY2025, which can be comfortably met through its fund flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating in case of improved diversification in the business profile, healthy sales and collections in the ongoing and upcoming residential projects resulting in healthy net operating cash flows.

Negative factors – Downward pressure on the rating could emerge in case of subdued sales and/or collections, or if any significant delay in completion in the ongoing residential projects weakens the company's liquidity position. Further, higher-than-expected 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 Net Debt/CFO remaining above 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities Consolidation rating approach
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's consolidated financial statements

About the company

Aparna Constructions and Estates Private Limited (ACEPL), the flagship company of the Aparna Group, was incorporated in 1996 by Mr. S. Subrahmanyam Reddy and Mr. C. Venkateswara Reddy to undertake real estate development. The company has completed more than 48 projects totalling around ~25 msf, primarily in the residential segment. The Aparna Group has executed more than 40 projects, largely in and around Hyderabad. The Group holds a land bank of more than 601 acres under various companies and is backward integrated through Aparna Enterprises Limited, which manufactures ready-mix concrete, UPVC doors and windows and solid bricks, to have better control over cost and quality.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	1,267.89	2,457.29
PAT	313.98	564.21
OPBDIT/OI	37.93%	34.80%
PAT/OI	24.76%	22.96%
Total outside liabilities/Tangible net worth (times)	1.36	1.39
Total debt/OPBDIT (times)	1.98	1.49
Interest coverage (times)	8.12	8.13

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Oct 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				April 10, 2023	-	Mar 28, 2022	Jan 31, 2022	Feb 08, 2021	May 18, 2020
1	Term loans	733.20	1126.57	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	Cash credit	50.00	50.00	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
3	Unallocated limit	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	Simple
Long-term – Fund-based – 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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Sep 2017/Oct 2021	-	Mar 2023/Dec 2025	733.20	[ICRA]A (Stable)
NA	Cash credit	-	-	-	50.00	[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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