

July 07, 2023

Aparna-Craft Exteriors Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash credit	5.00	15.00	[ICRA]BBB+(CE) (Negative); reaffirmed/assigned
Non-fund based	25.00	35.00	[ICRA]A2(CE); reaffirmed/assigned
Total	30.00	50.00	

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 rating of [ICRA]BBB+(CE) (Negative) for the long-term fund-based working capital facility of Rs. 15.0 crore and the rating of [ICRA]A2(CE) for the Rs. 35.0-crore non-fund based facility of Aparna-Craft Exteriors Private Limited (ACPL) are based on the strength of the corporate guarantee provided by Aparna Enterprises Ltd. (AEL; rated [ICRA]A- (Negative)/[ICRA]A2+). The Negative outlook on the rating reflects ICRA's outlook on the rating of the guarantor, AEL.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the guarantee issued by AEL in favour of the said facilities. While the guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated facilities, 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 reaffirmed the ratings of [ICRA]BBB+(CE) (Negative)/[ICRA]A2(CE) for the said facilities against the unsupported ratings of [ICRA]BBB-/ [ICRA]A3 [and in relation to the guarantor's ratings of [ICRA]A- (Negative)/[ICRA]A2+]. In case the ratings of the guarantor or the unsupported ratings of ACPL change in future, the same would have a bearing on the ratings of the aforesaid facilities. The ratings of these facilities may also 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 in the reputation sensitivity of the guarantor to a default by the rated entity or 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/financial institution (FI) without the lender's approval;
- » AEL's shareholding in ACPL to be maintained at a minimum level of 74%;
- » Any unsecured loans to the company will be subservient to the bank loan;
- » In case ACPL defaults on payments scheduled to be made to the lender on the specified due date, the guarantee provided by the guarantor will be considered to have been invoked; in such a situation, 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 – ACPL's rated bank facilities of Rs. 50.0 crore are backed by the strength of the 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 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. Notwithstanding the increase in its operating income to Rs. 100.9 crore in FY2023 (previous year (PY): Rs. 36.6 crore), ACPL's scale of operations remains modest. The profitability is exposed to movements in the key input costs.

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. This exposes ACPL's performance to any slowdown in the end-user segment.

Liquidity position

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

AEL's liquidity position is adequate. It has long-term debt repayment obligations of Rs. 52.7 crore in FY2024, which are expected to be serviced through the estimated cash flow from operations. While the utilisation of the working capital facilities remains high, the promoters have a demonstrated track record of infusing fresh capital towards working capital requirements and margin for capital expenditure (capex).

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

ACPL's liquidity position is adequate. The average working capital utilisation was ~91% of its sanctioned limits for the 12 months ending April 2023. ACPL does not have any long-term debt repayment obligations and there are no major capex plans in the 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
Parent/Group support	Parent company: AEL; the assigned ratings draw 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 facade and exterior design and engineering. ACPL executes projects related to facades and building exteriors with the help of the technical know-how of its JV partner. Further, the company has taken up fabrication orders for aluminium windows, which were previously carried out by the UPVC division of AEL.

Key financial indicators

ACPL	FY2022	FY2023
	Audited	Provisional
Operating income	36.6	101.0
PAT	1.4	4.3
OPBDIT/OI	6.6%	7.2%
PAT/OI	3.7%	4.2%
Total outside liabilities/Tangible net worth (times)	38.3	14.5
Total debt/OPBDIT (times)	1.5	2.0
Interest coverage (times)	4.2	6.1

Source: Company data, 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Jul 07, 2023	Jan 25, 2023	Jun 10, 2022	-	Mar 31, 2021
1 Fund based – Cash credit	Long term	15.00	12.92	[ICRA]BBB+(CE) (Negative)	[ICRA]BBB+(CE) (Negative)	[ICRA]BBB+(CE) (Stable)	-	[ICRA]BBB+(CE) (Stable)
2 Non-fund based	Short term	35.00	-	[ICRA]A2(CE)	[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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Cash credit	NA	NA	NA	15.00	[ICRA]BBB+(CE) (Negative)
NA	Non-fund based	NA	NA	NA	35.00	[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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