

December 05, 2023

## Aparna Enterprises Ltd.: Ratings reaffirmed; outlook revised to 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	150.95	[ICRA]A-; reaffirmed; Outlook revised to Stable from Negative
Long-term – Fund-based – Cash credit	160.00	220.00	[ICRA]A-; reaffirmed; Outlook revised to Stable from Negative
Short-term – Non-fund based	31.00	56.00	[ICRA]A2+; reaffirmed
Long-term – Unallocated limits	18.77	20.00	[ICRA]A-; reaffirmed; Outlook revised to Stable from Negative
Long-term/ Short-term – Unallocated limits	109.00	50.82	[ICRA]A-/ [ICRA]A2+; reaffirmed; Outlook revised to Stable from Negative
<b>Total</b>	<b>497.77</b>	<b>497.77</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook to Stable from Negative for Aparna Enterprises Limited (AEL) factors in the improvement in revenues and operating margins resulting in adequate debt protection metrics. After reporting a sharp correction in operating margins in H1 FY2023, the same recovered to 9% for FY2023, supported by improved capacity utilisation in unplasticised polyvinyl chloride (UPVC) division and better absorption of overheads in Ready-Mix Concrete (RMC) and UPVC divisions in H2 FY2023. AEL's revenues increased by 22% year-on-year (YoY) to Rs. 1,403.1 crore, driven by higher revenues from RMC division, UPVC division, Tiles division and its subsidiary – Aparna-Craft Exteriors Private Limited (ACPL) with pick up in construction of activity. Further, its revenues are estimated to grow by 14-15% YoY in FY2024, aided by higher revenues across division with operating margins around 8.3%-8.5%. Consequently, the Debt/EBITDA is expected to improve to 2.3 times as of March 2025 from 3.4 times as of March 2023.

The ratings continue to factor in AEL's healthy operational profile, supported by diversified revenue streams with presence in RMC, UPVC products in Hyderabad market and tiles in the South Indian market, along with the strong branding of the Aparna Group as a reputed real estate player in Hyderabad. Further, the backward-integrated operations of RMC, UPVC and tiles division provide better quality and cost control. The ratings favourably note the five-year compounded annual growth rate (5-year CAGR) of 14.0% in revenues over FY2019-FY2023, aided by increasing penetration of RMC and UPVC products in the key markets, along with increased penetration of its tiles brand in South India. AEL's expansion plan of RMC division in new micromarkets of Hyderabad and Bangalore and into new markets like Mangalore and Mumbai, the expanded capacity and streamlined operations of UPVC segment, along with the profiles division – Aparna Profiles Private Limited (APPL) and healthy distribution network of tiles across the South Indian market are expected to drive revenue growth over FY2024-FY2025.

The ratings are constrained by the intense competition in the building materials segment. Moreover, high geographical concentration restricts AEL's pricing flexibility with exposure to the cyclical nature of the real estate industry in Hyderabad. These, however, are mitigated to some extent by AEL's established presence in the industry and its strong brand reputation. In addition, the vulnerability of its earnings to fluctuations in raw material prices across divisions – RMC, UPVC and tiles, along with sizeable working capital requirements due to the high receivable cycle, inventory holding requirements in the UPVC as well as tiles divisions and subdued return indicators. However, the promoters have a demonstrated track record of timely equity infusion over the years (Rs. 79.9 crore infused by promoters during FY2019-FY2023) to meet any shortfall in the working capital requirements and fund capex.

## 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 ~25 million square feet of area. AEL serves as a backward-integrated entity for the Group in terms of manufacturing key building materials with ~30% 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. Further, AEL enjoys strong financial flexibility on the back of its parentage and the Group's long-established relationships with reputed lenders.

**Diversified revenue profile across divisions** – AEL's revenue profile is diversified with presence across various building materials namely RMC, UPVC products in Hyderabad and tiles in the South Indian market and facades through ACPL. AEL reported strong revenues at a 5-year CAGR of 14% during FY2019-FY2023, aided by increasing penetration of RMC and UPVC products in the key markets, along with increased penetration of its tiles brand in South India. AEL's expansion plan of RMC division in new micromarkets of Hyderabad and Bangalore and into new markets like Mangalore and Mumbai, the expanded capacity and streamlined operations of UPVC segment, along with the profiles division (APPL) and healthy distribution network of tiles across the South Indian market are expected to drive revenue growth over FY2024-FY2025.

**Backward-integrated operations provide better quality and cost control** – AEL's operations are backward integrated largely 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

**Vulnerability of earnings to fluctuations in raw material prices and competition** – AEL's profitability remains exposed to movement in key 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. AEL's revenues are estimated to improve by 14-15% in FY2024. Its operating margins are estimated to remain around 8.3-8.5% in FY2024 with recovery in profitability of tiles. This is likely to result in healthy leverage and coverage metrics for FY2024.

**Modest RoCE due to high investment in tiles and UPVC division** – Despite steady performance across business divisions over the years, the return indicators continue to remain subdued as reflected by modest RoCE levels of 6.5%-8.1% during FY2021-FY2023. This is largely due to subdued returns in tiles and UPVC division owing to high investments in it over the years.

**Sizeable working capital requirements of the business; exposure to intense competition and concentration risks** – All of AEL's key business divisions 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 helped the company to establish itself as one of the major suppliers of RMC and UPVC in the region. Despite stiff competition in the tiles division, it 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 cyclicalities associated with the real estate market in Hyderabad. However, expansion of the dealer network (for tiles and UPVC divisions) to various states across the country is likely to reduce the geographical concentration risk in the medium term. AEL's working capital requirements continue to remain high owing to a relatively elevated receivable cycle in the RMC division, coupled with the inventory holding requirements in the UPVC and tiles segments. The promoters have a demonstrated track record of timely equity infusion over the years (Rs. 79.9 crore infused by promoters during FY2019-FY2023) to meet any shortfall in the working capital requirements and fund its capex.

## Liquidity position: Adequate

AEL's liquidity position is adequate. It has long-term debt repayment obligations of Rs. 52 crore for FY2024 and Rs. 46.1 crore in FY2025. 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. 15-25 crore in FY2024-FY2025, which will be funded through its internal accruals.

## Rating sensitivities

**Positive factors** – ICRA could upgrade AEL's rating if the company demonstrates a healthy improvement in revenue and profitability across all divisions, along with strengthening of liquidity position. Specific credit metrics that could lead to an upgrade of AEL's rating include Total Debt/ OPBITDA below 2.0 times on a sustained basis.

**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 a rating downgrade would signify a DSCR lower than 1.4 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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 26 RMC plants in Hyderabad (17), Bengaluru (4), Mangalore (1), Mumbai (3) and Visakhapatnam (1). In 2008, it commenced production of UPVC windows and doors. AEL is also involved in trading of luxury sanitaryware. In FY2017-FY2018, 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 Verified 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	FY2022	FY2023
Operating income	1,151.1	1,403.1
PAT	13.4	16.4
OPBDIT/OI	9.3%	9.0%
PAT/OI	1.2%	1.2%
Total outside liabilities/Tangible net worth (times)	2.1	2.1
Total debt/OPBDIT (times)	3.7	3.4
Interest coverage (times)	3.7	3.4

Source: Company data

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 on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
				Dec 05, 2023	Apr 20, 2023	Jan 25, 2023	May 27, 2022		Mar 31, 2021	Mar 10, 2021
1 Term loans	Long term	150.95	150.34	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Cash credit	Long term	220.00	-	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3 Non-fund based limits	Short term	56.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
4 Unallocated limits	Long term	20.00	-	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5 Unallocated limits	Long term/ Short term	50.82	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[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	NA

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	150.95	[ICRA]A-(Stable)
NA	Cash credit	NA	NA	NA	220.00	[ICRA]A-(Stable)
NA	Non-fund based limits	NA	NA	NA	56.00	[ICRA]A2+
NA	Unallocated limits	NA	NA	NA	20.00	[ICRA]A-(Stable)
NA	Unallocated limits	NA	NA	NA	50.82	[ICRA]A-(Stable)/ [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 Craft-Exteriors Private Limited	100.00%	Full Consolidation
Aparna Transport LLP	51.00%	Full Consolidation

Source: Company Data

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