

Aparna Constructions and Estates Private Limited

December 14, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Term Loan Facilities	447.18	417.01	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Stable)
Long Term: Fund Based facilities	60.50	25.50	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Stable)
Long Term: Unallocated	47.07	112.24	[ICRA]A- (Stable); upgraded from [ICRA]BBB+(Stable)
Total	554.75	554.75	

* -Instrument details are provided in Annexure 1

Rationale

The rating upgrade factors in the improvement in ACEPL's business risk profile as reflected by improved sales velocity and healthy collections on account of adequate construction progress across most of its projects. The rating also favourably takes into account the Group's unencumbered committed receivables and unsold inventory (moving) of Rs. 247.0 crore and Rs. 455.6 crore respectively, which aids the cashflow position.

Also, high cash flow visibility on the back of healthy bookings and high sales velocity mitigates the concerns on funding risk to a large extent. Further, the group has a track record of prepaying its project debt through accelerated escrow mechanism as reflected by Rs. 109.03 crore of debt repayment in H1 FY2019 as against scheduled repayment of Rs. 17.29 crore. The rating continues to draw comfort from the established brand strength of Aparna Group and its demonstrated execution capabilities through completion of 19.56 million sqft of development area in Hyderabad market with good reputation for quality and timely completion.

The rating is however constrained by the moderate committed cash flow cover of the group in terms of [(pending receivables)/(pending construction cost + debt outstanding)] at 45.6%¹ as on September 30, 2018. The rating is also constrained by the high geographic concentration risk with the ongoing development largely limited to Hyderabad market. ACEPL's attempts to foray into newer geographies with Elina in Bangalore market and Amaravathy One in Vijayawada market remained unsuccessful owing to poor market response. Going forward, any major launches in these markets could expose the company to high market risks. Also, two major recently started projects – Amaravathy One and Zenith are exposed to high market risk given that there is significant proportion of units to be sold as on September 30, 2018. The company remains exposed to inherent cyclicity in the residential real estate industry and regulatory risks.

¹ The cash flow cover ratio on standalone basis stands at 39% as on September 30, 2018 as against 29% as on September 30, 2017

Going forward, the ability of the company to liquidate its slow-moving inventory at Amaravathy and improve its collection efficiency across all projects will remain key rating sensitivities although the time and cost over-run risks are largely mitigated given that the project is well ahead of schedule. The extent of land bank investments and movement in overall borrowing levels will be a key monitorable.

Outlook: Stable

ICRA believes ACEPL will continue to benefit from the vast experience of the promoters in real estate development and established brand presence in Hyderabad market. The outlook may be revised to 'Positive' if the construction progress is ahead of schedule with higher than expected sales velocity and improved collection efficiency thereby resulting in lower dependence on external debt. The outlook may be revised to 'Negative' if construction is slower than expected, lower than anticipated offtake or collection levels are lower than expected or higher than anticipated investments in land bank.

Key rating drivers

Credit strengths

Healthy track record and strong brand presence of Aparna group in Hyderabad market –The Aparna group is a reputed real estate developer with demonstrated execution capabilities through completion of 19.56 million sqft of development area in Hyderabad market with good reputation for quality and timely completion. Further, backward integrated nature of operations with group company, Aparna Enterprises Limited (rated, [ICRA]BBB+/Stable/A2), for supplying building materials results in better control over cost and quality.

Improved sales velocity– The sales velocity on a quarterly basis remained healthy in the range of 59-78 units per quarter owing to significantly high bookings in Serene Park, Cyber Life and Silver Oaks projects.

Healthy collections relative to construction progress – The collections improved significantly to Rs. 592.62 crore in 7m FY2019 as compared to Rs. 374.78 crore in 7m FY2018 (Rs. 760.53 crore in FY2018) primarily on account of healthy bookings and improved collection efficiency for Serene Park, Silver Oaks and Cyberlife projects. At an aggregate level, the collection to sale value stood at 74.63% as against construction progress of 54.6%.

Prepayment of debt through accelerated escrow mechanism – The company has a track record of prepaying its project debt through accelerated escrow mechanism as reflected by Rs. 109.03 crore of debt repayment in H1 FY2019 as against scheduled repayment of Rs. 17.29 crore.

Credit weaknesses

Moderate cash flow cover – The committed cash flow cover stood at 45.6% as on September 30, 2018. At the current sales velocity of 65 units per month, the company is comfortably placed to meet the pending construction cost for the ongoing projects.

Moderate market risk –Amaravathy project remains exposed to high market risk given the poor response with 94.9% of units yet to be sold. However, for Serene park project (sales velocity upwards of 30 units/month in FY2019) and silver oaks the market response has been positive. Overall, the market risk is moderate.

Execution risk for the recently launched projects with high geographical concentration– Three large projects –Serene Park, Silver Oaks and Amaravati One are in the under-construction phase exposing ACEPL to execution risk. However, the risk is mitigated to a large extent given the group's vast experience of developing 19.56 million sq. ft of real estate space till date.

Regulatory risks and inherent cyclicality in the sector – The real estate sector is vulnerable to regulatory changes as observed in the past with introduction of Goods and Services Tax (GST) and Real Estate Regulatory Authority (RERA) Act which have affected the sales velocity and collections of many incumbents to an extent. The company remains exposed to inherent cyclicality in the residential real estate industry.

Liquidity Position:

The liquidity position remains comfortable. ACEPL had repaid Rs. 109.03 crore in H1FY2019 as against scheduled debt repayment of Rs. 112.01 crore for FY2019. Overall, the group has access to undrawn bank lines of 600.41 crore. Further, the unencumbered committed receivables at the consolidated level stands at Rs. 955.78 crore with surplus cash of Rs. 22.99 crore as on Sept 30, 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	N.A.
Consolidation / Standalone	Consolidation

About the company:

Aparna Constructions and Estates Private Limited (ACEPL), was incorporated in 1996 by Mr. S. Subrahmanyam Reddy and Mr. C. Venkateswara Reddy to undertake real estate development. Till date, ACEPL has completed around 30 projects in and around Hyderabad city totalling 14.72 million sq. ft; of which residential accounts for 95% (14.0 million sq. ft) and commercial accounts for 5% (0.7 million sqft). Aparna group has executed around 40 projects, largely in and around Hyderabad, totalling 19.56 million sq. ft.

ACEPL is the flagship company of the Aparna group. The group holds land bank of more than 400 acres under various companies and is also backward integrated through Aparna Enterprises Limited which is into manufacturing of ready mix concrete, UPVC doors and windows and solid bricks.

Key Financial Indicators

	Standalone			Consolidated	
	FY2016	FY2017	FY2018	FY2016	FY2017
Operating Income (Rs. crore)	535.6	643.1	690.8	589.48	833.24
PAT (Rs. crore)	25.1	20.4	42.6	24.91	37.02
OPBDIT/ OI (%)	12.1%	9.0%	16.5%	12.56%	12.43%
RoCE (%)	7.1%	6.2%	12.5%	5.32%	6.79%
Total Debt/ TNW (times)	1.9	1.6	1.3	1.03	1.22
Total Debt/ OPBDIT (times)	8.6	8.9	4.0	9.66	7.42
Interest coverage (times)	0.9	0.7	1.9	3.04	2.72
NWC/ OI (%)	128.0%	101.9%	91.8%	139%	151%

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Dec 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Term Loan	417.01	417.01	[ICRA]A-(Stable);	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash Credit	25.50	-	[ICRA]A-(Stable);	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Secured Overdraft		-	-	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Unallocated	112.24	-	[ICRA]A-(Stable);	[ICRA]BBB+(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term: Fund Based Term Loan	FY2015- FY2018	9.85%- 11.20%	FY2022	417.01	[ICRA]A- (Stable)
NA	Long Term: Fund Based Cash Credit	-	-	-	25.50	[ICRA]A- (Stable)
NA	Long Term: Unallocated	NA	-	-	112.24	[ICRA]A- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aparna Projects Private Limited	99.99%	Full Consolidation
Aparna Corporation Private Limited	50.67%	Full Consolidation
Aparna Meadows Private Limited	99.90%	Full Consolidation
Aparna Health Services Private Limited	99.90%	Full Consolidation
Aparna Springfield's Private Limited	99.90%	Full Consolidation
Aparna Energy Private Limited	99.90%	Full Consolidation
Aparna Green Townships Private Limited	99.90%	Full Consolidation
Aparna Infra Housing Private Limited	51.00%	Full Consolidation
Aparna Shelters Private Limited	66.72%	Full Consolidation

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