

May 18, 2020

Aparna Constructions and Estates Private Limited (ACEPL): Rating reaffirmed

Summary of rating action

Instrument*	Previously Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	417.01	326.85	[ICRA]A-(Stable); Reaffirmed
Fund-based Cash Credit	25.50	24.75	[ICRA]A-(Stable); Reaffirmed
Unallocated	112.24	95.40	[ICRA]A-(Stable); Reaffirmed
Total	554.75	447.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the healthy sales velocity and the collections realised in FY2020 on account of adequate construction progress and established brand strength of Aparna Group. The Group continues to showcase timely completion across its projects—Cyber Life and Elina in FY2019 and Silver Oaks in FY2020 were completed ahead of schedule. The rating continues to draw comfort from the established track record of Aparna Group and its demonstrated execution capabilities; the company has completed more than 20 million square feet (mn sqft) of development area over three decades in Hyderabad market, with good reputation for quality and timely completion. Further, backward integrated operations with the group company, Aparna Enterprises Limited (rated, [ICRA]A-/Stable/A2+), which supplies building materials, results in better control over cost and quality. Further, ACEPL's committed cash flows is healthy, at 78%, against the pending construction cost and outstanding debt as on March 31, 2020 on a consolidated basis. The pending construction cost of Rs. 964 crore as on March 31, 2020 can be comfortably funded through committed receivable and undrawn debt. Further, the company has a track record of prepaying its project debt through accelerated escrow sweep mechanism, beyond the mandatory stipulated sweep-in, as part of sanction terms as reflected by Rs. 398.7 crore of debt repayment in FY2020 on a consolidated basis as against scheduled repayment of Rs. 51.07 crore.

The rating is, however, constrained by the geographic concentration risk, with the ongoing development largely limited to the Hyderabad market. ACEPL's attempts to foray into newer geographies through Elina in Bengaluru and Amaravathy One in Vijayawada met with limited success; however, the market response for the recently launched Mapple project in Bengaluru has been encouraging so far. The rating is also constrained as three of the ongoing projects—Amaravathy One, Aparna One and Zenith—are exposed to market risk, given that a significant number of units were yet to be sold as on March 31, 2020. Further the company is exposed to execution risk as three out of the seven ongoing projects were below 40% construction progress. Further, given the limited experience of the Group in commercial office space segment; the ability of the company to tie-up leases for its recently commenced commercial project in Kondapur, Hyderabad, in a timely manner remains to be seen.

The Covid-19 pandemic is expected to impact the operations and cash flows of real estate developers. Demand is expected to witness moderation and committed receivables from already booked sales could also recede, given that mile-stone based payments may get deferred and some buyers may delay payments because of economic uncertainties. The execution of ongoing projects is expected to be hampered because of reduced labour force availability and raw material supply chain disruptions. Overall project cash flows are thus expected to get adversely impacted in FY2021. ICRA will continue to monitor the situation and its possible impact on the operating metrics and risk profile of the company.

Key rating drivers and their description

Credit strengths

Healthy track record and strong brand presence of Aparna group in Hyderabad market – The sales velocity and collections were healthy in FY2020 because of adequate construction progress and established brand strength of Aparna Group. Aparna Group has an established track record with demonstrated execution capabilities; it completed more than 20 mn sqft of development area over three decades in the Hyderabad market, with good reputation for quality and timely completion.

Backward integrated operations: Backward integrated operations with group company, Aparna Enterprises Limited (rated, [ICRA]A-/Stable/A2+), which supplies building materials results in better control over cost and quality.

Healthy committed receivable cover: The Group has committed receivables as on March 31, 2020. ACEPL's committed cash flow is healthy, at 78%, against the pending construction cost and outstanding debt as on March 31, 2020 on a consolidated basis. The pending construction cost of Rs. 964 crore as on March 31, 2020, can be comfortably funded through committed receivables and undrawn debt.

Prepayment of debt through accelerated escrow mechanism – The company has a track record of prepaying its project debt through accelerated escrow sweep mechanism, beyond the mandatory stipulated sweep-in, as part of sanction terms as reflected by Rs. 398.7 crore of debt repayment in FY2020 on a consolidated basis as against scheduled repayment of Rs. 51.07 crore.

Credit weaknesses

Covid-19 pandemic likely to dent cash flows: The Covid-19 pandemic is expected to impact the operations and cash flows of real estate developers. Demand is expected to witness moderation and committed receivables from already booked sales could also recede, given that mile-stone based payments may get deferred and some buyers may delay payments because of economic uncertainties. The execution of ongoing projects is expected to be hampered because of reduced labour force availability and raw material supply chain disruptions. Overall project cash flows are thus expected to get adversely impacted in FY2021. ICRA will continue to monitor the situation and its possible impact on the operating metrics and risk profile of the company.

Exposure to geographical concentration risk – The group is exposed to geographic concentration risk as the ongoing development is largely limited to the Hyderabad market. ACEPL's attempts to foray into newer geographies through Elina in Bengaluru and Amaravathy One in Vijayawada met with limited success. However, the market response for the recently launched Mapple project in Bengaluru has been encouraging so far.

Moderate market and execution risk: Three of the ongoing projects—Amaravathy One, Aparna One and Zenith—are exposed to market risk, given that significant proportion of units to be sold as on March 31, 2020. The company is further exposed to execution risk with three out of seven ongoing projects under 40% of construction progress.

Execution and market risk related to group's recent foray into commercial office space segment—The Group has limited experience in commercial office space segment and hence the company's ability to tie-up leases for its recently commenced commercial project in Kondapur, Hyderabad, in a timely manner remains to be seen.

Liquidity position: Adequate

The liquidity of the company is adequate, with undrawn limit worth Rs. 235 crore, unencumbered cash balance of Rs. 14.86 crore and DSRA of Rs. 10.43 crore available as on March 31, 2020. The debt repayment for FY2021, estimated at Rs. 185.44 crore, can be comfortably met through cash flow from operations

Rating sensitivities

Positive triggers – ICRA could upgrade the company's rating if improvement in geographical diversification, better-than-expected sales and collections in ongoing residential projects, and expansion in scale result in better cash flows. Further, successful tie-up of leases of the ongoing commercial development would be a key rating trigger.

Negative triggers – Downward pressure on ratings could emerge in case of subdued sales or collections or if any significant delay in completion of the ongoing residential projects weakens the liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Real Estate Entities
Parent/Group Support	Not Applicable
Consolidation / Standalone	Full consolidation; list of entities considered are provided in Annexure 2

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. ACEPL is the flagship company of the Aparna Group and till date the company has completed around 30 projects in and around the Hyderabad city, totalling more than 16 mn sqft; majorly in the residential segment. Aparna Group has executed more than 40 projects, largely in and around Hyderabad. ACEPL is the flagship company of the Aparna Group. The Group holds land bank of more than 566 acres under various companies and is also backward integrated through Aparna Enterprises Limited, which manufactures ready-mix concrete, UPVC doors and windows and solid bricks to better control over cost and quality.

In FY2019, the company reported a net profit of Rs. 205.36 crore on an operating income of Rs. 1363.92 crore compared to a net profit of Rs. 93.09 crore on an operating income of Rs. 852.12 crore in the previous year.

Key financial indicators (Consolidated, audited)

	FY2018	FY2019
Operating Income (Rs. crore)	852.12	1,363.92
PAT (Rs. crore)	93.09	205.36
OPBDIT/OI (%)	24.43%	26.61%
RoCE (%)	14.29%	25.36%
Total Outside Liabilities/Tangible Net Worth (times)	1.58	1.52
Total Debt/OPBDIT (times)	0.93	0.78
Interest Coverage (times)	3.66	5.88
DSCR	0.37	1.47

Source: ACEPL, ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding	Rating 18-May-2020	FY2020	FY2019 14-Dec-2018	FY2018 05-Jan-2018
1 Term Loan	Long Term	326.85	326.85	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2 Cash Credit	Long Term	24.75	-	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3 Secured Overdraft	Long Term	-	-	-	-	-	[ICRA]BBB+ (Stable)
4 Unallocated limits	Long Term	95.40	-	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)

Amount in Rs. crore

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

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Sep-17	-	Apr-22	58.00	[ICRA]A- (Stable)
NA	Term Loan 2	Sep-19	-	Oct-23	125.00	[ICRA]A- (Stable)
NA	Term Loan 3	Mar-19	-	Mar-23	50.00	[ICRA]A- (Stable)
NA	Term Loan 4	Aug-16	-	Aug-21	43.85	[ICRA]A- (Stable)
NA	Term Loan 5	Sep-19	-	Mar-23	50.00	[ICRA]A- (Stable)
NA	Cash Credit	NA	-	NA	24.75	[ICRA]A- (Stable)
NA	Unallocated limits	NA	-	NA	95.40	[ICRA]A- (Stable)

Source: ACEPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Aparna Projects Private Limited	99.99%	Full Consolidation
Aparna Infrahousing Private Limited	66.72%	Full Consolidation
Aparna Shelters Private Limited	100.00%	Full Consolidation
Aparna Corporation Private Limited	50.67%	Full Consolidation
Aparna Meadows Private Limited	99.90%	Full Consolidation
Aparna Springfields 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 Private Limited	100.00%	Full Consolidation

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