

March 28, 2022

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
Fund-based Term Loans	708.45	708.45	[ICRA]A(Stable); Reaffirmed
Fund-based Cash Credit	24.75	50.00	
Unallocated Limits	50.00	24.75	
Total	783.20	783.20	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of Aparna Constructions and Estates Private Limited's (ACEPL's) factors in healthy sales and collections resulting in comfortable Total Debt/fund Flow from operations (FFO). The sales velocity and collections improved in FY2021 and 7M FY2022 from FY2020 levels and the same is likely to continue in FY2022 and FY2023 due to favourable demand for its projects in Hyderabad. The company has sold 3.6 million square feet (mn sqft) area in FY2021 and 2 mn sqft in 7M FY2022 with robust sales velocity for its newly launched projects. The collections remained healthy at Rs. 1,396 crore in 7M FY2022 and are expected to increase by 30% in FY2022 (PY: Rs. 1,712 crore). The leverage is expected to be comfortable with Total Debt/FFO of less than 2 times in FY2022 and FY2023, supported by healthy fund flow from operations.

The rating takes into account the company's track record of prepaying its project debt through an accelerated escrow sweep mechanism, beyond the mandatory stipulated sweep-in as a part of sanction terms, as reflected by Rs. 325.0 crore of debt repayment in FY2021 on a consolidated basis against scheduled repayment of Rs. 49.6 crore. However, the benefits of the prepayment are partly offset by higher-than-anticipated debt drawdown against new loans. The rating continues to draw comfort from the established track record of Aparna Group and its demonstrated execution capabilities. It has developed more than 20 mn sqft of area over three decades in Hyderabad. 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.

The rating is, however, constrained by the geographical concentration risk, as the ongoing development is largely limited to Hyderabad. ACEPL's attempts to foray into newer geographies through Elina project in Bengaluru and Amaravathy One project in Vijayawada met with limited success. However, the market response for Maple project in Bengaluru has been better. It has launched large-sized projects in the recent years, which exposes the company to high market risk given the significant inventory that will be released. While the sales response to the new launches have been encouraging, any decline in demand trends may adversely impact the cash flow position considering the large pending costs to be incurred on such projects. Serenity, Yellow Bells and Zicon have a pending unsold area of around 7.34 mn sqft. The balance cost to complete these projects is estimated to be around Rs. 2,671 crore as of October 2021. Additionally, the company has recently launched Zenon with saleable area of around 6.2 mn sqft at an estimated cost of around Rs. 2,300 crore.

Further, the company is exposed to execution risk as four out of the eleven ongoing projects were below 45% construction progress. Also, given the limited experience of the Group in commercial office space segment, its ability to tie-up leases for the commercial projects in a timely manner remains to be seen. Further, ACEPL's committed cash flow ratio (receivables over pending cost and debt outstanding) remained moderate at 44% as on October 31, 2021, declining from 77%, owing to three new launches (8.8 mn sft, 46% of total projects under development). ACEPL's debt/net operating working capital ratio is modest at 133%, which reduces the financial flexibility available in case of any decline in sales and collections. Further, ACEPL has forayed into active pharma ingredient manufacturing by investing in Aparna Pharmaceuticals Pvt Ltd (APPL, wholly owned

by ACEPL) towards acquisition of fully operational bulk drug units of Lantech Pharmaceuticals Limited. Going forward, higher-than-expected non-core investments and associated debt funding will be a credit negative.

ICRA believes that ACEPL's credit profile will remain stable due to 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 – The company witnessed healthy sales and collections with higher realisations resulting in a comfortable Total Debt/FFO. The sales velocity and collections were healthy in FY2021 and 7M FY2022 improving from FY2020 and the same is expected to continue for FY2022 and FY2023 due to favourable demand for its offerings in Hyderabad market. The company has sold 3.6 mn sqft in FY2021 and 2 mn sqft in 7M FY2022 with robust sales velocity for its newly launched projects. The collections remained healthy at Rs. 1,396 crore in 7M FY2022 and are expected to increase by 30% in FY2022 (PY: Rs. 1,712 crore). The leverage is likely to be comfortable with Total Debt/FFO of less than 2 times in FY2022 and FY2023, supported by healthy fund flow from operations.

Healthy track record and strong brand presence of Aparna Group in Hyderabad market – The Group has an established track record and has developed more than 20 mn sqft of area over three decades in Hyderabad, with good reputation for quality and timely completion. Further, backward-integrated operations with the group company, Aparna Enterprises Limited, which supplies building materials, results in better control over cost and quality.

Prepayment of debt through accelerated escrow mechanism – The company has a track record of prepaying its project debt through an accelerated escrow sweep mechanism, beyond the mandatory stipulated sweep-in, as a part of sanction terms as reflected by Rs. 325.0 crore of debt repayment in FY2021 on a consolidated basis against scheduled repayment of Rs. 49.6 crore. However, the benefits of the prepayment are partly offset by higher-than-anticipated debt drawdown against the new loans.

Credit challenges

Exposed to geographical concentration risk – The Group is exposed to geographical 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 Maple project in Bengaluru has been better.

High market risk for recently launched large projects; moderate execution risk and committed cash flows – ACEPL has launched large-sized projects in the recent years, which exposes the company to high market risk given the significant inventory that will be released. While the sales response to the new launches have been encouraging, any decline in demand trends may adversely impact the cash flow position considering the large pending costs to be incurred on such projects. Serenity, Yellow Bells and Zicon have a pending unsold area of around 7.34 mn sqft. The balance cost to complete these projects is estimated to be around Rs. 2,671 crore as of October 2021. Additionally, the company has recently launched Zenon with saleable area of around 6.2 mn sqft at an estimated cost of around Rs. 2,300 crore. It is exposed to execution risk as four out of the eleven ongoing projects were below 45% construction progress.

Moreover, given the Group's limited experience in the commercial office space segment, the company's ability to tie-up leases for its two recently commenced commercial project in Kondapur, Hyderabad in a timely manner remains to be seen. ACEPL's committed cash flow remained moderate as on October 31, 2021, at 44% declining from 77%, against the pending construction

cost and outstanding debt as on October 31, 2020 owing to three new launches – Serenity, Yellow Bells and Zicon (8.8 mn sft, 46% of total projects under development). Its debt/net operating working capital ratio is modest at 133%, which reduces the financial flexibility available in case of any decline in sales and collections.

Significant non-core investments – ACEPL invested Rs. 229 crore (out of total expected investment of Rs. 254 crore) as on October 31, 2021 towards APPL (100% held by ACEPL) for acquisition of the fully operational bulk drug units of Lantech Pharmaceuticals Limited. The operations of the acquired unit are managed by APPL since April 2021. The balance investment of Rs. 25.00 crore would be by March 2022. Further, ACEPL has extended unsecured loans of Rs. 5.00 crore to APPL for working capital needs. Going forward, higher-than-expected non-core investments and associated debt-funded capex (if any) will be a credit negative.

Liquidity position: Adequate

The company's liquidity is adequate. ACEPL has an undrawn debt of Rs. 170.00 crore and unencumbered cash of ~Rs. 50.00 crore available as on October 31, 2021. The company has repayment obligations of Rs. 300-400 crore per annum over the next two years, which can be comfortably met through 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 cashflows.

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/FFO 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
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the company

About the company

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 30 projects in and around the Hyderabad city, totalling around 20 mn sqft, majorly 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 also 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

	FY2020	FY2021
Operating Income (Rs. crore)	1,664.23	1,267.89
PAT (Rs. crore)	348.97	313.98
OPBDIT/OI (%)	30.35%	37.93%
PAT/OI (%)	20.97%	24.76%
Total Outside Liabilities/Tangible Net Worth (times)	1.31	1.36
Total Debt/OPBDIT (times)	1.44	1.98
Interest Coverage (times)	15.95	8.12

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Chronology of Rating History										
Current Rating (FY2022)					for the past 3 years					
Instrument Type		Amount Rated	Amount Outstanding	Date & Rating		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
				Mar 28,2022	Jan 31,2022	Feb 08,2021	May 18,2020	-	Dec 14,2018	
1	Term Loans	Long-term	708.45	708.45*	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
2	Cash Credit	Long-term	50.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
3	Unallocated Limits	Long-term	24.75	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)

Amount in Rs. Crore; *As on October 31,2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Simple
Cash Credit	Simple
Unallocated Limits	Not Applicable

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, is available on ICRA's 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	Term loan - 1	Sep 2017	-	Apr 2022	14.55	[ICRA]A (Stable)
NA	Term loan - 2	Jan 2020	-	Mar 2023	14.88	
NA	Term loan - 3	Sep 2019	-	Nov 2023	91.37	
NA	Term loan - 4	Mar 2019	-	Apr 2024	33.72	
NA	Term loan - 5	Jan 2020	-	Mar 2024	99.15	
NA	Term loan - 6	Dec 2020	-	Nov 2025	22.82	
NA	Term loan - 7	Mar 2021	-	Dec 2024	109.54	
NA	Term loan - 8	Sept 2019	-	Oct 2023	18.91	
NA	Term loan - 9	Feb 2020	-	Feb 2026	155.55	
NA	Term loan - 10	Dec 2020	-	Dec 2025	9.90	
NA	Corporate loan	Oct 2021	-	Sept 2024	36.92	
NA	Term loan - 11	Dec 2020	-	Nov 2025	10.46	
NA	Term loan - 12	Dec 2019	-	Dec 2024	55.98	
NA	Term loan - 13	Sep 2020	-	Jan 2024	34.70	
NA	Cash Credit	-	-	-	50.00	
NA	Unallocated Limits		-		24.75	

Source: Company

Please click [here](#) to view details of lender-wise facilities rated by ICRA

Annexure-2: 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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