March 19, 2024

Aparna Constructions and Estates Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	733.20	930.00	[ICRA]A (Stable); reaffirmed/ assigned for the enhanced amount
Long-term – Fund-based – Cash credit	50.00	50.00	[ICRA]A (Stable); reaffirmed
Long-term – Unallocated limits	-	253.20	[ICRA]A (Stable); assigned
Total	**783.20**	**1,233.20**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Aparna Constructions and Estates Private Limited (ACEPL) factors in the healthy operating performance in FY2024, which is expected to sustain in FY2025, supported by continued end-user demand, good sales velocity and a strong launch pipeline. In 7M FY2024, the company sold 3.5 million square feet (msf) (FY2023: 6.3 msf) of area and reported collections of ~Rs. 2,381 crore (FY2023: ~Rs. 3,415 crore). It launched 14.2 msf in FY2024 YTD and is likely to launch ~10 msf in FY2025. The collections are projected to grow by 11-13% in FY2024 and FY2025, driven by the expected healthy sales and construction progress from its ongoing and recently launched projects. Consequently, the cash flow from operations and leverage are estimated to improve. ACEPL's committed cash flow remained adequate at 66%, against the pending construction cost and outstanding debt as on October 31, 2023, on a consolidated basis, owing to healthy sales in the newly launched projects. The rating continues to draw comfort from the established track record of the Aparna Group delivering more than ~27 msf of area over three decades in the Hyderabad region. Moreover, backward-integrated operations with the Group company – Aparna Enterprises Limited (AEL, rated [ICRA]A- (Stable)/[ICRA]A2+), which provides building materials, leads to improved control over cost and quality.

The rating is, however, constrained by the market risk for the recently launched large-sized projects (14.2 msf). Moreover, the company is exposed to moderate execution risk as six out of the twelve ongoing residential projects are below 30% construction progress. However, the risk is mitigated by the strong execution capabilities demonstrated by the Group in the past three decades. ACEPL's leverage as measured by debt/CFO remained high as of March 2023. The debt levels are likely to remain in the range of Rs. 1,400-1,600 crore as of March 2024 and March 2025 (Rs. 1,554.4 crore as of March 2023). With expected improvement in cash flow from operations in FY2024 and FY2025, the total debt/CFO is estimated to improve to below 3.0 times as of March 2024 and March 2025. The company's Debt/Net Operating Working Capital ratio is high at 84%, which reduces the financial flexibility in case of any decline in sales and collection. The rating is constrained by the geographical concentration risk, as the ongoing development is primarily limited to Hyderabad. The Group has attempted to venture out in new geographies but had limited success.

The company forayed into commercial office space development in FY2020 and acquired the fully operational bulk drug units of Lantech Pharmaceuticals Limited through its 100% subsidiary, Aparna Pharmaceuticals Private Limited (APPL) in FY2022 as a part of its diversification strategy. Both the commercial projects and APPL are being funded through its internal accruals. Going forward, significant increase in investments in unrelated businesses and associated debt funding will be a credit negative.

The Stable outlook on the rating reflects ICRA's expectation that the company will continue to maintain healthy sales and collections across majority of its projects resulting in an improvement in cash flows from operations and leverage position, while maintaining adequate liquidity position.

Key rating drivers and their description

Credit strengths

Healthy sales and collections expected in FY2024 and FY2025 – In 7M FY2024, the company sold 3.5 msf (FY2023: 6.3 msf) of area and reported collections of Rs. 2,381 crore (FY2023: Rs. 3,415.4 crore). It launched 14.2 msf in FY2024 YTD and is likely to launch ~10 msf in FY2025. The collections are estimated to grow by 11-13% in FY2024 and FY2025 with the expected healthy sales and construction progress from its ongoing and recently launched projects. Consequently, the cash flow from operations and leverage are estimated to improve.

Adequate cash flow adequacy ratio – ACEPL's committed cash flow remained adequate at 66%, against the pending construction cost and outstanding debt as on October 31, 2023, on a consolidated basis, owing to healthy sales in the newly launched projects.

Healthy track record and strong brand presence of Aparna Group in Hyderabad market – The company launched its project – Newlands – in January 2024 and has sold ~10% units in just two months since the launch. Also, project Synergy (launched in July 2023) sold 13% (424 units) of area as of October 2023, showcasing its strong brand presence in the Hyderabad market. The Group has a proven track record of developing more than ~27 msf of area over three decades in Hyderabad, with a good reputation for quality and timely completion. The backward-integrated operations with AEL, which provides building materials, leads to improved control over cost and quality.

Credit challenges

Exposed to market risk for recently launched projects and moderate execution risk – The rating considers the market risk for the recently launched large-sized projects (14.2 msf). Moreover, the company is exposed to moderate execution risk as six out of the twelve ongoing residential projects are below 30% construction progress. However, the risk is mitigated due to the strong execution capabilities demonstrated by the Group over the past three decades.

High leverage as of March 2023, however, expected to improve – The company's leverage as measured by debt/CFO remained high as of March 2023. The debt levels are likely to remain in the range of Rs. 1,400-1,600 crore as of March 2024 and March 2025 (Rs. 1,554.4 crore as of March 2023). With expected improvement in cash flow from operations in FY2024 and FY2025, the total debt/CFO is estimated to improve to below 3.0 times as of March 2024 and March 2025.

Significant non-core investments – The company forayed into commercial office space development in FY2020 and also acquired the fully operational bulk drug units of Lantech Pharmaceuticals Limited through its 100% subsidiary, APPL, in FY2022 as a part of its diversification strategy. Both of the commercial projects and APPL are being funded through ACEPL's internal accruals. Going forward, significant investments in unrelated businesses and associated debt funding will be a credit negative.

Liquidity position: Adequate

The company's liquidity is adequate. ACEPL has an undrawn debt of Rs. 320.0 crore as of October 2023 and unencumbered cash of Rs. 90.7 crore available as on March 31, 2023. It has repayment obligations of Rs. 600-650 crore in FY2025, which can be met through its estimated cash 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 robust cash flow from operations. Specific credit metrics that could lead to an upgrade include Total Debt/CFO[1] remaining below 2.5 times on a sustained basis.

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[1] CFO = Customer collections less project expenditure (including land / approval costs in ongoing projects) less overheads less taxes less adjustment for working capital changes; this will be before land payments towards upcoming projects

Negative factors – Downward pressure on the rating could emerge in case of subdued sales and/or collections, or if any significant delay in completion of the ongoing residential projects weakens the company's liquidity position. Further, material increase in 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 Total Debt/CFO remaining above 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Commercial/Residential/Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's consolidated financial statements. List of entities which are consolidated are shown in Annexure II.

About the company

Aparna Constructions and Estates Private Limited (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 50 projects totalling around ~27 msf, primarily in the residential segment in Hyderabad market. The Group holds a land bank of more than 600 acres under various companies and is backward integrated through Aparna Enterprises Limited, which manufactures ready-mix concrete, UPVC doors as well as windows and solid bricks, to have better control over cost and quality.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	2,457.3	3,004.9
PAT	564.1	560.5
OPBDIT/OI	34.8%	29.1%
PAT/OI	23.0%	18.7%
Total outside liabilities/Tangible net worth (times)	1.4	1.4
Total debt/OPBDIT (times)	1.5	1.8
Interest coverage (times)	8.1	7.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Oct 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
					Mar 19, 2024	April 10, 2023	-	Mar 28, 2022	Jan 31, 2022	Feb 08, 2021	May 18, 2020
1	Term loans	Long term	930.00	930.00	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	Cash credit	Long term	50.00	47.71	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)
3	Unallocated limit	Long term	253.20	-	[ICRA]A (Stable)	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	Simple
Long-term – Fund-based – Cash credit	Simple
Long term - Unallocated limit	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 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 loan**	Aug 2023	9.50%	June 2028	930.00	[ICRA]A (Stable)
NA	**Cash credit**	-	-	-	50.00	[ICRA]A (Stable)
NA	**Unallocated**	-	-	-	253.20	[ICRA]A (Stable)

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	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

ANALYST CONTACTS

Rajeshwar Burla
040 – 6939 6443

rajeshwar.burla@icraindia.com

Anupama Reddy
040 – 6939 6427

anupama.reddy@icraindia.com

Abhishek Lahoti
040 – 6939 6433

abhishek.lahoti@icrainia.com

Attaluri Hemanth Vasishta

040 – 6939 6419

vasishta.attaluri@icraindia.comcom

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches