

## Aparna Constructions and Estates Private Limited

January 05, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loans	394.50	447.18	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB(Stable)
Fund based – Working capital facilities	60.50	60.50	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB(Stable)
Unallocated Limits	99.75	47.07	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB(Stable)
<b>Total</b>	<b>554.75</b>	<b>554.75</b>	

### Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 507.68 crore<sup>1</sup> fund based bank facilities and Rs. 47.07 crore unallocated limits of Aparna Constructions and Estates Private Limited (ACEPL / the company)<sup>2</sup> to [ICRA]BBB+ (pronounced ICRA triple B plus) from [ICRA]BBB (pronounced ICRA triple B). The outlook on the long-term rating is 'Stable'.

### Rationale

The rating upgrade reflects the improved company's risk profile primarily on account of healthy bookings and high collection efficiency for its projects viz. Serene Park, Cyberzon and Elixir. Further, the company had successfully completed several residential projects such as Elina, Lakebreeze, Cyberzon and Osman's Everest during FY2017 largely on time.

The rating continues to draw comfort from the established brand strength of Aparna Group and its demonstrated execution capabilities through completion of 14.19 million sqft of development area in Hyderabad market with good reputation for quality and timely completion. Further, the group has a track record of prepaying project debt through accelerated escrow mechanism. ICRA notes that competitive interest rates for the recently contracted debt for new projects by the company is expected to lower the interest outgo going forward.

The committed cash flow cover in terms of  $\frac{[(\text{pending receivables})/(\text{pending construction cost} + \text{debt outstanding})]}$  is moderate at 34% for launched areas as on September, 2017. Notwithstanding the positive market response for Serene Park; given that 71% of the launched stock across Serene Park, Cyberlife and Silver Oaks remains unsold as on September, 2017, ACEPL remains exposed to market risk. Further, three large projects – Amaravati One, Silver Oaks and Serene Park, accounting for 90% of the pending cost to be incurred, are in nascent stages of construction, thus exposing it to execution risk. The rating is also constrained by the high geographic concentration risk with the ongoing development largely limited to Hyderabad market. In the past, the company's maiden attempt outside Hyderabad by foraying into Bangalore market has witnessed poor market response; however, ICRA notes that Aparna has good brand

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

recall in Andhra Pradesh which could help the company for its Amaravati One project in Amaravati, Andhra Pradesh. The company remains exposed to inherent cyclical risk in the residential real estate industry and regulatory risks.

Going forward, the ability of the company to timely complete the ongoing projects with no cost over runs, improve sales velocity for Serene Park and Silver Oaks projects and liquidate unsold inventory in Elixir and Elina projects will remain key rating sensitivities. Also, the ability of ACEPL to garner favourable market response for Amaravati project 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.

## 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 14.19 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 collection levels in 8M FY2018 and healthy collection efficiency relative to construction progress** – The monthly collections improved significantly to Rs. 56 crore in 8M FY2018 when compared to Rs. 42 crore in FY2017 primarily on account of healthy bookings and high collection efficiency for Serene Park, Cyberzon and Elixir projects. At an aggregate level, the collection to sale value stood at 83% as against financial progress of 63%.

**Prepayment of debt through accelerated escrow mechanism** – The company has a demonstrated track record of prepaying the debt through accelerated escrow mechanism and is usually much ahead of the repayment schedule at any given point of time. Moreover, reduction in interest rates for the recently contracted debt for new projects is expected to lower the interest outgo going forward.

**Timely completion of various projects during FY2017** – ACEPL has completed four projects – Elina, Lakebreeze, Cyberzon and Osman's Everest during FY2017 largely on time.

### Credit weaknesses

**Moderate cash flows cover** – The committed cash flow cover is moderate at 34% for launched areas as on September, 2017. However, at the current sales velocity of 55 units per month, the company is comfortably placed to meet the pending construction cost along with the outstanding debt for the ongoing projects.

**Moderate market risk** – ACEPL remains exposed to market risk as a significant portion i.e. 1796 units (71% of total units as on September 30, 2017) in Serene Park, Cyberlife and Silver Oaks projects are yet to be sold. However, positive market response for Serene park project (sales velocity of 17 units/month since launch) mitigates this risk to an extent.

**Execution risk for the recently launched projects with high geographical concentration**– Three large projects –Serene Park, Silver Oaks and Amaravati One which account for 90% of pending cost to be incurred are in the nascent stages of construction, thereby exposing ACEPL to execution risk. However, the risk is mitigated to a large extent given the group’s vast experience of developing 14.2 million sq. ft of real estate space till date. Further, with the ongoing development largely limited to Hyderabad market, ACEPL remains exposed to geo-political risks.

**Regulatory risks and inherent cyclicity in the sector** – The real estate sector is vulnerable to regulatory changes as observed in the past one year 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. Further, the compliance costs for the company due to GST and RERA are expected to increase. The company remains exposed to inherent cyclicity in the residential real estate industry.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Real Estate Entities](#)

## 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 22 projects in and around Hyderabad city totalling 9.35 million sq. ft; of which residential accounts for 95% (8.86 million sq. ft ) and commercial accounts for 5% (0.50 million sqft). Aparna group has executed around 31 projects, largely in and around Hyderabad, totalling 14.19 million sq. ft.

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

ACEPL is currently developing 4.95 million sqft under 5 different projects, of which four are located in Hyderabad (Kondapur, Chandanagar and Nallagandla) and one is located in Guntur district (Tadepalli).

## Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	535.61	640.73
PAT (Rs. crore)	25.14	21.51
OPBDIT/ OI (%)	12.07%	8.62%
RoCE (%)	7.33%	6.17%
Total Debt/ TNW (times)	1.90	1.65
Total Debt/ OPBDIT (times)	8.60	9.37
Interest coverage (times)	3.22	2.98
NWC/ OI (%)	128%	107%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2018	Date & Rating in FY2017 November 2016	Date & Rating in FY2016 January 2016	Date & Rating in FY2015 January 2015
1 Term Loans	Long Term	447.18	447.18	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2 Secured Overdraft	Long Term	35.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3 Cash Credit	Long Term	25.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
4 Unallocated Limits	Long Term	47.07	-	[ICRA]BBB+ (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](http://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 Loans	FY2015-FY2017	10.75%-12%	FY2022	447.18	[ICRA]BBB+ (Stable)
NA	Secured Overdraft	-	NA	NA	35.00	[ICRA]BBB+ (Stable)
NA	Cash Credit	-	NA	NA	25.50	[ICRA]BBB+ (Stable)
NA	Unallocated Limits	NA	NA	NA	47.07	[ICRA]BBB+ (Stable)

Source: Aparna Constructions and Estates Private Limited

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