

Aparna Enterprises Limited

April 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Cash Credit Limits	78.00	108.00	[ICRA]BBB+(Stable) reaffirmed
Term Loan	94.50	94.50	[ICRA]BBB+(Stable) reaffirmed
Non-fund based limits	10.00	15.00	[ICRA]A2+ reaffirmed
Proposed fund-based limits	62.50	32.50	[ICRA]BBB+(Stable) reaffirmed
Proposed non-fund-based limits	5.00	-	
Total	250.00	250.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) assigned to the Rs. 108-crore cash credit limits, Rs.94.50-crore term loan and Rs. 32.50-crore proposed fund-based limits of Aparna Enterprises Limited(AEL). The outlook on the long-term rating is 'Stable'. ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 15.00-crore non-fund based facilities of AEL.

Rationale

The ratings reaffirmation takes into consideration AEL's established market position in the Hyderabad real estate market for sale of Ready to Mix Concrete (RMC) and UPVC products; and the company's experience in trading of tiles with a large dealer network which is expected to aid in its foray into the tiles manufacturing segment. The ratings also take into account the commencement of operations of AEL's tiles manufacturing unit in July 2017. While the tiles manufacturing division contributed to AEL's revenue growth (to the tune of Rs. 38 crore) and improved profitability during 9M FY2018 due to focus on relatively high value-added product namely double charged vitrified tiles, the operations at the unit are yet to be ramped up to full scale. Furthermore, given that the company plans to sell tiles under its own brand "Vitero", establishing the same is likely to entail a time lag given the high competitive intensity in the tiles industry. The ratings further continue to gather comfort from the presence of a gas off-take agreement with Bhagyanagar Gas Limited (BGL) and ease of raw material sourcing from Nellore District in Andhra Pradesh, which mitigate risks pertaining to fuel and raw material availability for the tiles manufacturing unit.

The ratings, however, remain constrained by the moderate debt coverage and return indicators (return on capital employed) of the company owing to relatively high cost incurred for setting up the tiles manufacturing unit, predominantly towards provision of facilities for future expansion, from which returns are yet to be derived. Furthermore, the profitability of the tiles division remains exposed to volatility in raw material and fuel prices. The ratings further continue to remain constrained by the dependence of AEL's products on the real estate market, which, in turn remains exposed to demand cyclicity. In addition, the ratings remain tempered by the high geographical concentration risk with 70% of the company's revenues derived from the Telangana and Andhra Pradesh markets. The ratings also remain affected by the high competitive intensity in the RMC industry and vulnerability of the segment's profitability to variations in cement prices. While the competitive intensity in the UPVC industry also remains high, margins from this segment are expected to remain protected due to usage of in-house manufactured profiles as against imported profiles being used earlier.

Outlook: Stable

The 'Stable' outlook reflects ICRA's expectations that AEL's overall performance will continue to remain healthy driven by the consistent performance of the RMC and UPVC divisions. Furthermore, the company is expected to benefit from its strong brand presence in the regional markets, experience in tiles trading and presence of an established dealer network for ramping up its tiles manufacturing operations. The outlook will be revised to 'Positive' in case of a faster-than-expected improvement in scale of the tiles division which would also drive profitability growth for the company. The outlook will be revised to 'Negative' in case of weak performance of the tiles unit going forward which would weaken the company's return and debt coverage indicators.

Key rating drivers

Credit strengths

Established presence of the Aparna Group in the Hyderabad real estate and building materials market – AEL is a part of the Aparna group which is one of the prominent real estate players in the Hyderabad market. The group has executed several residential projects predominantly in Hyderabad under ACEPL. AEL, on the other hand serves as a backward integrated entity for the group in terms of manufacturing building materials. The group has a strong brand presence regionally in both real estate as well as building materials (RMC and UPVC) markets.

Healthy performance and growth prospects for the existing RMC and UPVC divisions – The RMC and UPVC divisions of the company demonstrated a healthy performance in the ongoing FY2018. Furthermore, the growth prospects for the business divisions remain healthy owing to increasing acceptability of these products in the real estate segment.

Commencement of operations in the tiles manufacturing unit to drive revenue and profitability growth – The tiles manufacturing division of AEL commenced operations in July 2017 and operated a capacity utilisation level of 57% in the first six months of operations. Scale up of operations of the tiles unit is expected to drive margin growth for the company going forward due to focus on a relatively high value-added product namely double charge vitrified tiles, presence of a gas off take agreement to cater to fuel requirements and savings arising on transport costs as against players in Morbi, Gujarat while catering to demand in South India.

Credit challenges

High geographical and segmental concentration (residential real estate market) risk– The performance of AEL remains exposed to geographical concentration risks given that about 70% of the company's revenues are derived from Telangana and Andhra Pradesh markets. Furthermore, with sole dependence on residential real estate projects, business prospects are linked to cyclicity associated with real estate market.

Subdued return indicators owing to high investment in the tiles unit from which returns are yet to be realised – AEL invested Rs. 195 crore for setting up its tiles manufacturing division with a capacity of 15,000 sqm/day. The cost was higher than envisaged as the company installed sophisticated machinery for manufacturing higher value add products. Furthermore, a provision was also made for future enhancement in capacity. Hence, the company's return on capital employed (ROCE) remains subdued as the returns on the incremental investment are yet to be realised. Further, debt coverage indicators remain moderate as evident from Total Debt/EBITDA at 6.0 times and 4.7 times for FY2017 and 9MFY 2018 respectively, which is estimated at around 3~3.5 times over next 2-year period.

High competitive intensity in the RMC and UPVC markets – The RMC segment is characterised by high competitive intensity due to competition from large integrated players and also from several unorganised players owing to low value addition nature of business. However, strong regional presence of the Aparna Group has aided the company in ensuring a healthy order inflow. On the other hand, competition from established players as well as new entrants in the UPVC segment is likely to exert pressure on profitability; however, margins within this segment are expected to be protected by increased usage of in-house manufactured profiles going forward.

Profitability of tiles divisions remains vulnerable to price fluctuations of raw materials and fuel: The profitability of the tiles division remains vulnerable to input and fuel price risk in tiles manufacturing business, given the competitive intensity involved in the 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](#)

About the company:

Aparna Enterprises Limited (AEL), incorporated in 1994 by Mr. S. Subrahmanyam Reddy and Mr. K. Sita Rama Raju, commenced operations as a tiles distributor. In 2006, AEL ventured into manufacturing of building materials and commenced production of ready mix concrete (RMC) with a capacity of 52 cubic meter/hour and over the years has expanded to current capacity of 468 cubic meter/hour. Currently, the company operates RMC plants in Telangana, Bangalore and Andhra Pradesh. In 2008, the company commenced production of UPVC windows and doors. The company is also engaged in manufacturing of concrete blocks, cement fly ash bricks and trading in luxury sanitary ware. In FY2017-18, the company is set up a tiles manufacturing unit in Kakinada in Andhra Pradesh at a cost of Rs. 195 crore funded by Rs. 94.50 crore debt and remaining from equity and internal accruals. The tiles manufacturing unit commenced operations in July 2017.

In FY2017, the company reported a net profit of Rs. 5.6 crore on an operating income(OI) of Rs. 436.1 crore as compared to net profit of 8.3 crore on OI of Rs. 476.2 crore for FY2016.

Key financial indicators (audited)

	FY2016	FY2017	9M FY2018*
Operating Income (Rs. crore)	476.2	436.1	382.1
PAT (Rs. crore)	8.3	5.6	6.0
OPBDIT/ OI (%)	7.1%	7.7%	10.2%
RoCE (%)	12.2%	10.5%	9.6%
Total Debt/ TNW (times)	1.0	1.4	1.3
Total Debt/ OPBDIT (times)	3.0	6.0	4.7
Interest coverage (times)	3.1	2.9	2.7
NWC/ OI (%)	18.3%	22.9%	24.9%

*provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating April 2018	Date & Rating in FY2017 February 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2015 February 2015
1 Cash Credit	Long Term	108.0		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Term Loan	Long Term	94.5	94.5	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3 Non-Fund Based Limits	Short Term	15.0		[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4 Unallocated	Long Term	32.5		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
5 Proposed Non-fund-based limits	Short Term	0.0			[ICRA]A2+		

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	Cash Credit	NA	NA	NA	108.0	[ICRA]BBB+ (Stable)
NA	Term Loan	August 2015	NA	August 2024	94.5	[ICRA]BBB+ (Stable)
NA	Non-Fund based Limits	NA	NA	NA	15.0	[ICRA]A2+
NA	Unallocated Limits	NA	NA	NA	32.5	[ICRA]BBB+ (Stable)

Source: Aparna Enterprises Limited

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