February 08, 2021

Aparna Constructions and Estates Private Limited: Ratings reaffirmed; Outlook revised to 'Positive' from 'Stable'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	326.85	305.34	[ICRA]A-; Reaffirmed and outlook revised to Positive from Stable
Fund-based Cash Credit	24.75	24.75	[ICRA]A-; Reaffirmed and outlook revised to Positive from Stable
Unallocated	95.40	116.91	[ICRA]A-; Reaffirmed and outlook revised to Positive from Stable
Total	**447.00**	**447.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has consolidated the financials of Aparna Constructions and Estates Private Limited (ACEPL), and Aparna Infrahousing Private Limited (AIHPL), given their strong operational, financial and management linkages.

The revision in outlook factors in the healthy collections realised in 9MFY2021 of Rs. 1129.2 crore on account of robust sales velocity experienced for its five new projects launched in the last one year. For the recently launched Aparna Serenity project, the company was able to sell 20% of the project (276 units) within a month indicating the strong market response for ACEPL's offerings. The Group continues to showcase timely completion across its projects; Serene Park and Silver Oaks in FY2020 were completed ahead of schedule. Further, ACEPL's committed cash flow is healthy, at 77%, against the pending construction cost and outstanding debt as on October 31, 2020 on a consolidated basis. The pending construction cost of Rs. 2236 crore as on October 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 an accelerated escrow sweep mechanism, beyond the mandatory stipulated sweep-in as part of sanction terms, reflected in Rs. 155.86 crore of debt repayment in 7MFY2021 on a consolidated basis as against a scheduled repayment of Rs. 31.2 crore. 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 the Hyderabad market and has 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.

The rating is, however, constrained by the 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. The rating is also constrained as three of the ongoing projects—Amaravathy One, Aparna One and Mapple—are exposed to market risk, given that a significant number of units are yet to be sold as on October 31, 2020. Further, the company is exposed to execution risk as five out of the ten ongoing projects were below 40% construction progress. The group is currently developing two projects in commercial office space segment with total leasable area of 2.4 mn sft and total cost of Rs. 715.9 crore of which AIHPL's contribution is Rs. 368.4 crore. Given the limited experience of the Group in commercial office space segment; the ability of the company to tie-up leases for its two recently commenced commercial projects in a timely manner remains to be seen. ACEPL is planning to foray into active pharma ingredient manufacturing by investing Rs. 125 crore[1] in Aparna Pharmaceuticals Pvt Ltd (APPL) (50% held by ACEPL and 50% held by Gama

[1] The total investment outlay is estimated at Rs. 250 crore and will be equally contributed by ACEPL and Gamma Organics

Organics Ltd) for acquisition of fully operational bulk drug units of Lantech Pharmaceuticals Limited. ICRA is given to understand that the investments pertaining to both commercial office space and APPL will be funded through internal accruals of ACEPL. Going forward, higher-than-expected non-core investments and associated debt-funded capex (if any) will be a credit negative.

Key rating drivers and their description

Credit strengths

Healthy track record and strong brand presence of Aparna group in Hyderabad market – The collections were healthy at Rs. 1129.2 crore in 9MFY2021 on account of robust sales velocity experienced for its five new projects launched in the last one year. For the recently launched Aparna Serenity project, the company was able to sell 20% of the project (276 units) within a month indicating the strong market response for ACEPL's offerings. The Group continues to showcase timely completion across its projects; Serene Park and Silver Oaks in FY2020 were completed ahead of schedule. The Group has an established track record and demonstrated execution capabilities; it has completed more than 20 million square feet (mn sqft) of development area over three decades in the 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.

Healthy committed receivable cover: ACEPL's committed cash flow is healthy, at 77%, against the pending construction cost and outstanding debt as on October 31, 2020, on a consolidated basis. The pending construction cost of Rs. 2236 crore as on October 31, 2020 can be comfortably funded through committed receivable and undrawn debt.

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 part of sanction terms. It has Rs. 155.86 crore of debt repayment in 7MFY2021 on a consolidated basis as against a scheduled repayment of Rs. 31.2 crore.

Credit challenges

Exposed 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 Mapple—are exposed to market risk, given that a significant number of units are yet to be sold as on October 31, 2020. Further, the company is exposed to execution risk as five out of the ten ongoing projects were below 40% construction progress. The group is currently developing two projects in commercial office space segment with total leasable area of 2.4 mn sft and total cost of Rs. 715.9 crore of which AIHPL's contribution is Rs. 368.4 crore. Given the limited experience of the Group in commercial office space segment; the ability of the company to tie-up leases for its two recently commenced commercial projects in a timely manner remains to be seen.

Significant non-core investments planned – ACEPL is planning to foray into active pharma ingredient manufacturing by investing Rs. 125 crore in Aparna Pharmaceuticals Pvt Ltd (APPL) (50% held by ACEPL and 50% held by Gama Organics Ltd) for acquisition of fully operational bulk drug units of Lantech Pharmaceuticals Limited. ICRA is given to understand that the investments pertaining to both commercial office space and APPL will be funded through internal accruals of ACEPL. Going forward, higher-than-expected non-core investments and associated debt-funded capex (if any) will be a credit negative.

Liquidity position: Adequate

The liquidity of the company is adequate. ACEPL has undrawn debt of Rs. 450 crore and DSRA of Rs. 9.77 crore and unencumbered cash of ~Rs. 24 crore available as on October 31, 2020. The scheduled debt repayment of Rs. 136.1 crore for FY2021 can be comfortably met through cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating in case of better-than-expected sales and collections in ongoing residential projects resulting in improved cash flows. Further, successful tie-up of leases/sale of ongoing commercial development would be a key rating trigger

Negative factors – The outlook could be revised to Stable in case of subdued sales or collections; or if any significant delay in completion of 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.

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	For arriving at the ratings, ICRA has consolidated the financials of ACEPL and AIHPL and used limited consolidation approach, under which only the funding commitments towards Aparna Pharmaceuticals Pvt Ltd has been considered.

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 more than 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 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.
In FY2020, the company reported a net profit of Rs. 349.2 crore on an operating income of Rs. 1676 crore compared to a net profit of Rs. 205.3 crore on an operating income of Rs. 1368.8 crore in the previous year.

Key financial indicators (audited)

ACEPL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	1,368.8	1,676.0
PAT (Rs. crore)	205.3	349.2
OPBDIT/OI (%)	26.9%	30.8%
RoCE (%)	25.3%	29.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.3
Total Debt/OPBDIT (times)	1.8	1.4
Interest Coverage (times)	6.0	16.5
DSCR (times)	1.5	3.1

Source: ACEPL, ICRA research

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 31, 2020 (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 8, 2021	May 18, 2020	-	Dec 14, 2018	Jan 5, 2018
1	Term Loans	Long Term	305.34	305.34	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	-	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**
2	Fund based bank facilities	Long Term	24.75	-	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	-	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**
3	Secured Overdraft	Long Term	-	-	-	-	-	-	**[ICRA]BBB+ (Stable)**
4	Unallocated limits	Long Term	116.91	-	**[ICRA]A- (Positive)**	**[ICRA]A- (Stable)**	-	**[ICRA]A- (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 [click here]

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-I	Sep 2017	-	FY2023	43.20	[ICRA]A- (Positive)
NA	Term Loan-II	Sep 2019	-	FY2024	40.51	[ICRA]A- (Positive)
NA	Term Loan-III	Mar 2019	-	FY2023	48.59	[ICRA]A- (Positive)
NA	Term Loan-IV	Jan 2020	-	FY2024	26.73	[ICRA]A- (Positive)
NA	Term Loan-V	Sep 2019	-	FY2024	10.00	[ICRA]A- (Positive)
NA	Term Loan-VI	Aug 2020	-	FY2024	50.00	[ICRA]A- (Positive)
NA	Term Loan-VII	Feb 2020	-	FY2026	26.18	[ICRA]A- (Positive)
NA	Term Loan-VIII	Aug 2016	-	FY2022	11.19	[ICRA]A- (Positive)
NA	Term Loan-IX	Dec 2019	-	FY2025	14.23	[ICRA]A- (Positive)
NA	Term Loan-X	FY2019	-	FY2024	34.71	[ICRA]A- (Positive)
NA	Cash Credit	NA	-	NA	24.75	[ICRA]A- (Positive)
NA	Unallocated limits	NA	-	NA	116.91	[ICRA]A- (Positive)

Source: *Company*

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	50.00%	Limited Consolidation

Source: *ACEPL*

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