Acuite
RATINGS & RESEARCH

Press Release

Aero Club

November 10, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.50.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus**) on the Rs.50.00 crore bank facility of Aero Club. The outlook is **'Stable.'**

The rating assigned to the bank facility of Aero Club takes into account the long track record of operations, experienced management, and strong brand image in the premium footwear segment, integrated nature of operations and good resource mobilization ability of the partners. While these strengths are partly offset by working capital intensive nature of operations, deteriorating operating performance, high competitive intensity coupled with continuously changing consumer preference.

Set up in 1992, Delhi-based Aero Club is a partnership firm (Avatar Singh-40%, Harkirat Singh-40%, Aero Traders Pvt. Ltd.-10% and Aero Associates Pvt. Ltd.-10%) and flagship firm of six-decade old Aero Group. The firm manufactures footwear and sells under the 'Woodland' or 'Wood' brands - a popular premium shoe brand, on a pan-India basis. While the footwear remains the firm's key product, it also deals in manufacturing and selling of apparels and accessories.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Aero Club to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations, experienced management, Strong brand image and integrated operations**
  Aero Club has a long track record of operations with the existence of Aero Group since early 1950s. Mr. Avatar Singh (partner and chairman of Aero Club) and Harkirat Singh (partner and managing director of Aero Club) have more than 2 decades of experience. The promoters over the years have enabled the increase in the scale of operations. Aero Club over the years has scaled up to into a full-fledged footwear/apparel manufacturing and retail firm with more than 500 exclusive retail stores over a span of 28 years. 'Woodland' is one of the most popular footwear brand in the premium footwear segment. In fact, the strong brand image of 'Woodland' could help reap the benefits of the expected improvement in premiumisation trend in the footwear segment in the long-run. The firm's operations are backward integrated starting from processing raw leather to manufacturing and marketing of shoe. The promoters over the years have also diversified into apparels and accessories to provide a more rich experience to customers and diversify the operations. Acuité believes that the extensive experience of the promoters is likely to lead to healthy revenue growth and an increase in its geographical presence over the medium term.

- **Moderate financial risk profile**
  The financial risk profile of Aero Club is moderate marked by healthy net worth, low gearing and comfortable debt protection metrics. The net worth stood at Rs.567.53 crore as on March 31, 2020 (Provisional) as compared to Rs.568.21 crore as on March 31, 2019. Aero Club's partners have in the past demonstrated the ability to mobilize funds to increase the scale of operations of the firm. The promoters

have not only infused the growth capital but have also supported the debt servicing obligation amidst stressed liquidity led by the pandemic. A likely capital infusion by partners of around Rs.65.00 crore in the near term would improve the overall liquidity of Aero Club and thus, improving its debt-servicing capacity.

The company follows a conservative leverage policy as reflected by its peak gearing of 1.11 times as on March 31, 2020 (Provisional). The total debt of Rs.628.21 crore outstanding as on 31 March, 2020 (Provisional) comprises Rs.166.68 crore as term loan from the banks and financial institutions, Rs.0.68 crore as unsecured loan from promoters and Rs.460.85 crore working capital borrowings. The gearing is expected to remain low in future due to expectations of healthy net worth and no debt-funded capex plans.

In FY2020, net cash accruals stood at Rs.60.19 crore (Provisional) as against Rs.61.85 crore in FY2019. The net cash accruals have marginally decreased on account of the decrease in depreciation. However, the coverage indicators are comfortable with an interest coverage ratio (ICR) of 1.66 times for FY2020 (Provisional) (PY: 1.75 times). The total outside liabilities to tangible networth (TOL/TNW) stood moderate at 1.48 times as on March 31, 2020 (Provisional). Acuité expects the coverage indicators of Aero Club to remain comfortable on account of the stable profit margins.

Acuité believes that the financial risk profile of Aero Club will continue to remain moderate over the medium term on account of capital infusion by the partners.

Weaknesses

- **Working capital intensive nature**
  Aero Club has high GCA days in the range of 400 days on an average for the last three years through March 31, 2020 (Provisional). The high GCA days are on account of its high inventory storage requirement due to its large number of retail stores. This has led to a high reliance on working capital limits. The working capital limits of the firm were almost fully utilized for the last 12 months period ended in September 2020. Acuité expects the incremental working capital requirements to continue to remain high over the near to medium term.

- **Deteriorating operating performance on account of Covid-19**
  Aero Club's operations are significantly impacted by the COVID-19 pandemic, which has led to a steep deterioration in the firm's ability to generate revenues. The company's revenues in FY 2020-21 are expected to be lower by around 50 percent on account of reduced business activity during the lockdown period. While the firm has been able to re-open 423 out of it 536 stores, the revenue decline is expected to remain steep. While the firm has successfully re-negotiated the rental costs and has also taken significant measures to reduce its employee expenses by around 50 percent, the firm is likely to report losses at operating profit before tax (PBT) level. While the revenues are expected to improve gradually on a month on month basis due to seasonality, any further disruptions may severely impact the debt servicing ability of the company over the near to medium term.

- **High competitive intensity and changing consumer preferences**
  The footwear and apparel industry is highly fragmented with the presence of lot of organized and unorganized players. Nearly 75-85% of the footwear industry is captured by unorganised players, who sell their products at sharp discount vis-à-vis branded players. This makes the competition tougher for the organised players such as Aero Club. In fact, consumers' rising preference for online buying only adds to the competitive intensity for the fashion segment (footwear, apparels and accessories), as there are zillion of players available on this e-market platform. The competition also comes from chip imports (like Chinese shoes, wallets, and other accessories, etc.). The fashion retail industry is exposed to the risk of fast and continuously changing consumer preferences. Thus, adapting to the latest fashion trend quickly is critical to continued growth in its scale of operations.

Liquidity Position: Adequate

Aero Club has adequate liquidity on account of financial support provided by partners in the form of capital infusion. Repayment obligations for FY21 and FY22 are expected to be in the range of Rs.23.00-70.00 crore, as against projected net cash accrual (NCA) of Rs.30.89 crore and Rs.59.41 crore, respectively. The gap between the debt obligations and NCA for FY22 will be taken care of by the capital infusion of Rs.65.00 expected by March 2021.

Rating Sensitivities

- Ability to control operation cost protects the firm's profitability
- Inability to timely mobilize the funds would put pressure on liquidity
- Any further deterioration in working capital management leading to deterioration in the financial risk profile and liquidity

Outlook: Stable

Acuité believes that Aero Club will maintain 'Stable' outlook on the back of a strong brand image and experienced management. The outlook will be revised to 'Positive' in case the firm registers higher-than-expected revenues and profit margins. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the operating performance, thereby impacting the financial risk profile and liquidity of the firm.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	994.25	1020.57
PAT	Rs. Cr.	30.29	30.73
PAT Margin	(%)	3.05	3.01
Total Debt/Tangible Net Worth	Times	1.11	1.08
PBDIT/Interest	Times	1.66	1.75

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Applicable

Any Material Covenants

No major covenants apart from financial covenants.

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Bank Name	Date of Issuance	oupon Rate	aturity Date	of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Union Bank of India	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB- /Stable (Assigned)

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About Acuité Ratings & Research:
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