

Press Release

Aero Club

September 06, 2021



Rating Downgraded & Assigned

Total Bank Facilities Rated*	Rs.486.00 Cr. (Enhanced from Rs.436 Cr.)
Long Term Rating	ACUITE BB-/ Outlook: Stable (Downgraded & Assigned)
Short Term Rating	ACUITE A4 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.436.00 crore bank facilities of Aero Club. Acuite has also assigned the long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.50 crore bank facilities of Aero Club. The outlook is '**Stable.**'

The rating downgrade is on account of liquidity stretch leading to intermitted overdrawings in the working capital facilities. The company has a presence in retail outlet and post outbreak of Covid-19, the retail industry was one of the most impacted among others. Moreover, the outbreak of second wave of Covid-19 has worsened the liquidity for retailers. Aero Club has witnessed stretched in liquidity on account of sharp decline in operations of the firm. Since the firm is into retail outlets, the inventory turnover cycle has worsened in FY2021 and is not expected to reach pre-covid levels by FY2022. In case of any third wave of Covid-19, followed by lockdowns or restrictions, might further impact the liquidity profile of the firm.

Aero Club's operating income and net profit in FY2021 are estimated to have declined by ~45-46per cent. Working capital cycle is likely to have got sharply stretched in FY2021 with GCA days increasing to 843 from 430 a year back. Average fund-based bank limit utilization during the 6 months through July 2021 stood higher at over 98per cent.

About the Company

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 a 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

Acuite has considered the standalone financial and business risk profiles 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. Over the years, under the promoters' leadership, Aero Club has witnessed an expansion in scale of operations into a full-fledged footwear/apparel manufacturing and retail firm with more than 450 exclusive retail stores. The firm has backward integration in place starting from processing of raw leather to manufacturing and marketing of shoes.

'Woodland' is one of most popular footwear brand in the premium footwear segment. In fact, the

strong brand image of 'Woodland' could help reap the benefits of expected improvement in premiumisation trend in the footwear segment in the long-run. The promoters, over the years, have also diversified into apparels and accessories to provide a more rich experience to customers and diversify the operations.

Acuite believes that the extensive experience of the promoters would help good business recovery from Covid-19 and an increase in its geographical presence over a long term.

- **Moderate financial risk profile**

Financial risk profile of Aero Club is moderate marked by healthy net worth, low gearing and moderate debt protection metrics. The firm's net worth stood at Rs.604.38 crore as on March 31, 2021 (estimated) compared to Rs.551.71 crore as on March 31, 2020. Aero Club's partners have in the past demonstrated the ability to mobilize funds to increase the scale of operations. Capital infusion by partners of over Rs.43 crore (net of withdrawals) in FY21 (Provisional) and further ~Rs.15 crore estimated in FY22, so far, would improve the overall liquidity and debt-servicing capacity of Aero Club.

Debt to equity ratio of the firm, as on March 31, 2021 (estimated) stood at ~1.11 times, which is almost at par with the year-ago level. The total debt of Rs.670.01 crore outstanding as on 31 March, 2021 (estimated) comprises Rs.185.87 crore of term loans from the banks and financial institutions, Rs.0.66 crore of unsecured loans from promoters and Rs.483.47 crore of working capital borrowings. Acuite expects, Aero Club's debt to equity ratio to improve over a medium term to below unity. The total outside liabilities to tangible net worth (TOL/TNW) stood moderate at 1.39 times as on March 31, 2021 (estimated) compared to 1.54 times as on March 31, 2020.

Interest coverage ratio (ICR) in FY21 (estimated) stood at 1.48 times compared to 1.60 times in FY20. Debt service coverage ratio was at 1.03 times for FY20 and 1.12 times for FY21 (estimated). Both the coverage indicators are estimated to moderate from FY21 (estimated) level.

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

Weaknesses

- **Significant deterioration in working capital**

Covid-19 outbreak has severely impacted retail players like Aero Club and has worsened inventory turnover cycle, resulting in a significant deterioration in gross current asset (GCA) days. The firm's GCA days, for FY21 (estimated), stood at 843 compared to 430 for FY20. The high GCA days are on account of high inventory days, which increased to 658 for FY21 (estimated) from 313 a year back. Average utilization of fund-based working capital limits, during the 6 months through July 2021, also stood over 98per cent. Acuite expects the incremental working capital requirements to continue to remain high compared to pre-Covid level over a medium term.

- **Deteriorating operating performance on account of Covid-19**

During FY18-FY20, the firm's overall performance remained under pressure. While its revenue grew at a CAGR of 1.67per cent, profit after tax declined by ~24per cent during the said period. In FY21also Aero Club's operations were significantly impacted by the Covid-19-led challenges, leading to a steep deterioration in the firm's ability to generate revenues. Aero Club's operating income and net profit plunged by 45.77per cent and 46.41per cent, respectively, in FY21 (estimated). Further, the firm also closed ~100 stores in FY21.

While, the firm has successfully re-negotiated the rental costs and has also taken significant measures to reduce its fixed costs by ~40-45per cent in FY21, resulting in expansion in EBITDA margin (~20-21per cent in FY21 (estimated) vs 14.18per cent in FY20). Further, the firm has also sharply increased its focus on e-commerce channel (~71per cent of domestic revenue in FY21 vs ~2per cent in FY20), which would help abate the impact of the pandemic to some extent.

The firm's changed distribution strategy would support its operating margin even going ahead with its EBITDA margin expected to remain ~14per cent levels over a medium term. However, business impact resulting from uncertainty of the pandemic and the firm's inability to recover from it would lead to a deterioration in the overall financial risk profile and further stretch on liquidity position,

imparting a negative bias on the rating.

Rating Sensitivities

- Revenue recovery while maintaining healthy operating margin
- Elongation in working capital cycle

Material Covenants

No major covenants apart from financial covenants.

Liquidity Position – Stretched

Aero Club's liquidity position is stretched on account of Covid-19-led disruptions. Going ahead, the firm's net cash accruals are estimated to fall short of debt repayment obligations in the near term. Although, in FY21 moratorium availed under Covid-19 helped the firm. With a sharp elongation in working capital cycle, the firm's average fund-based bank limit utilization stood higher at over 98 per cent during the 6 months through July 2021. Covid-19-led disruptions worsened inventory turnover of retail players like Aero Club. The firm's Inventory days increased to 658 for FY21 (estimated) from 313 for FY20, resulting in a sharp deterioration in GCA days, which stood at 843 for FY21 (estimated) compared to 430 a year back. In case of any third wave of Covid – 19, followed by lockdowns or restrictions, might further impact liquidity position of the firm.

Partners' ability to timely infuse the funds to support liquidity pressure would be a key monitorable going ahead.

Outlook: Stable

Acuite believes that Aero Club would maintain 'Stable' outlook on the back of strong brand image and experienced management. The outlook would be revised to 'Positive' in case the firm registers significantly faster-than-expected revenue recovery, while maintaining healthy profitability. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the operating performance, thereby hurting the financial risk profile and liquidity of the firm.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	987.10	1022.49
PAT	Rs. Cr.	16.93	30.73
PAT Margin	(%)	1.71	3.01
Total Debt/Tangible Net Worth	Times	1.13	1.08
PBDIT/Interest	Times	1.60	1.75

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

CRISIL vide its press release dated June 30, 2021 has mentioned Aero Club's rating as 'BB-/Negative/A4+ Issuer Not Cooperating' as on June 30, 2021

Any other information

Not Applicable

Applicable Criteria

- Default Recognition -<https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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)

Date	Name of Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-May-2021	Cash Credit	Long Term	50.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	105.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	281.00*	ACUITE BBB-/Stable (Assigned)
10-Nov-2020	Cash Credit	Long Term	50.00	ACUITE BBB-/Stable (Assigned)

*Includes WCDL sub-limit of Rs. 169.00 crore

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BB-/Stable (Downgraded from ACUITE BBB-/Stable)
Union Bank of India	Cash Credit	Not Available	Not Available	Not Available	105.00	ACUITE BB-/Stable (Downgraded from ACUITE BBB-/Stable)
Bank of Baroda	Cash Credit	Not Available	Not Available	Not Available	281.00*	ACUITE BB-/Stable (Downgraded from ACUITE BBB-/Stable)
Kotak Mahindra Bank	Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB-/Stable (Assigned)
Bank of Baroda	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE A4 (Assigned)
Bank of Baroda	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.22	ACUITE A4 (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.78	ACUITE BB-/Stable (Assigned)

*Includes WCDL sub-limit of Rs. 169.00 crore

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About Acuité Ratings & Research:

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