

Press Release

Aero Club

August 10, 2022



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BB Stable Assigned	-
Bank Loan Ratings	37.22	-	ACUITE A4+ Upgraded
Bank Loan Ratings	448.78	ACUITE BB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	506.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long term rating from '**ACUITE BB-**' (read as **ACUITE double B minus**) to '**ACUITE BB**' (read as **ACUITE double B**) and short term rating from '**ACUITE A4**' (read as **ACUITE A four**) to '**ACUITE A4+**' (read as **ACUITE A four plus**) on Rs.486.0 crore bank facilities of '**Aero Club**'. The outlook is '**Stable**'.

Acuite has further assigned '**ACUITE BB**' (read as **ACUITE double B**) on Rs. 20.0 crore bank facilities of '**Aero Club**'. The outlook is '**Stable**'.

Rationale for rating

The upgrade in ratings take into account improved financial performance in FY22 (Prov.) resulting in increase in total operating income in FY22 (Prov.) vis-à-vis FY21, which resulted in increase in profitability level and improvement in financial risk profile and liquidity profile of the firm. The rating also takes into account support from partners in the form of fund infusion in the firm and increase in revenue generation from e-commerce segment. The above strengths are, however underpinned by elongated gross current asset days resulting in higher utilization of working capital borrowings and withdrawal of capital due to partnership nature of business.

About the Company

Set up in 1992, Delhi-based Aero Club is a partnership firm (Avatar Singh 40%, Harkirat Singh, Aero Traders Pvt. Ltd.- and Aero Associates Pvt. Ltd.) 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 view of business and financial risk profiles of Aero Club.

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 rich experience to customers and diversify the operations.

Improvement in total operating income during FY22 (Prov.)

The firm reported total operating income of Rs. 746.25 crore during FY22 (Prov.) as against Rs.535.92 crore in FY21, thereby registering y-o-y growth of 39.24%. The company had reported lower revenue in FY21 due to COVID induced lockdown wherein the footwear business witnessed slump led by closure of showrooms. The firm also reported increase in revenue from e-commerce segment, which contributed to 30% of revenue in FY22 as against 2-3% in FY21. Further, the firm also derived higher revenue from export to Bangladesh to the tune of Rs.12.0 crore in FY22 as against Rs.1.0 crore in FY21.

Albeit, there has been increase in total operating income, the firm is yet to achieve pre-COVID levels. Hence, consistent increase in total operating income is crucial from rating perspective.

Moderate albeit improving financial risk profile

The capital structure as represented by debt-equity ratio improved to 0.96 times as on March 31, 2022 as against 1.13 times as on March 31, 2021. The improvement in D-E ratio is led by accretion of profit to reserves coupled with repayment of term debt during the year. Further, there has also been infusion of capital to the tune of Rs.66.46 crore in FY22. The interest coverage ratio also improved to 1.59 times in FY22 (Prov.) over 0.79 times in FY21, led by improved operating profit. Similarly, debt-EBITDA also improved significantly to 4.44 times in FY22 (Prov.) vis-à-vis 9.42 times in FY21. The other debt overage indicators also improved led by improvement in profitability level. The total tangible net worth remained at similar level at 1.25-1.42 times with marginal improvement during the period.

The financial risk profile is expected to improve going ahead led by increase in profit and repayment of existing term debt. Nevertheless, Acuite further believes that being partnership entity any significant withdrawal (drawings) would affect the tangible net worth.

Support from partners through fund infusion

The partners have infused funds to the tune of Rs.66.46 crore during FY22 (Prov.) in order to support the business operations of the firm. The partners have been infusing funds in past to support the business operations.

Weaknesses

Intense working capital cycle

The firm operates in working capital intensive nature of operations. The Gross Current Asset days, albeit improved continues to remain at 552 days in FY22 (Prov.) as against 776 days in FY21. The company has current assets in the form of loans and advances and deposits. The company maintains higher inventory of pairs of shoes in all outlets as per variety of size, style and color. Further, there had also been slow movement of inventory during FY21-22 led by impact of COVID-19. The company also imports raw material; rubber and leather and processes the same in tanneries. The company maintains raw materials for 180 days. The aggregate inventory days remained at 400-600 days in FY21-22 (Prov.). The company sells

across two segments; retail and distributors. The company has 1-2 distributors across all states and owns 400 retail outlets. The company extends credit period of 30-90 days to its distributors. The creditors period remained at 182 days in FY22 (Prov.) as against 257 days in FY21. The working capital utilisation for past 12 months ending May 2022 remained at higher level at ~98%.

Withdrawal of capital

As Aero Club is a partnership firm, there have also been instances of withdrawal of capital. there has also been withdrawal of Rs.49.35 crore. Any significant withdrawal could impact the financial risk profile of the company.

ESG Factors Relevant for Rating

The footwear manufacturing sector contributes to GHG emission on account of utilization of raw material such as leather and other carbon chemicals. The same is further accentuated with carbon emission during the transportation of the finished product. Hence, the adherence to environmental regulations for effluent treatment plants and proper disposal mechanism remains crucial. The utilization of chemicals and leather also calls for safe working conditions along with procurement of good quality of raw materials. There is a requirement of well-established organizational structure with independent board and audit committee which would ensure that shareholders' rights are properly addressed.

The firm procures leather and processes the same in its own tanneries. The firm's production units are inspected on an annual basis. The firm avails the clearance certificate from relevant authorities. Hence, this mitigates the environmental risk to certain extent. In addition to this, the firm also ensures safe working environment by following work contract act applicable to leather industry. The safety of product is ensured by existing R&D department. It also carries out training programs for employees from time to time. The firm has separate departments for different area of business operations including internal audit committee. Nevertheless, the firm's ability to ensure diversity and fair compensation would remain critical factors

Rating Sensitivities

- >Significant scaling-up of operations along with profitability margins.
- >Substantial improvement in working capital management.
- >Any deterioration in financial risk profile.

Material covenants

None

Liquidity Position: Adequate

The liquidity profile continues to remain at adequate level with net cash accruals of Rs.43.50 crore in FY22 as against debt repayment of Rs.32.0 crore. The company also maintains cash and bank balance of Rs.2.41 crore as on March 31, 2022 (Prov.) The current ratio continues to remain above unity at 1.54-1.58 times in FY21-22 (Prov.). The net cash accruals is expected to remain at Rs.48-55 crore in FY23-24 as against the debt repayment of Rs.24 crores. Acuite believes that liquidity profile is expected to remain at adequate level in medium term.

Outlook: Stable

Acuité believes that Aero Club will maintain a 'Stable' outlook and will continue to derive benefits over the medium term due to extensive experience of partners, moderate financial risk profile and healthy revenue visibility bolstered by favorable industry environment. The outlook may be revised to 'Positive' in case the company registers higher-than- expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	746.25	535.92
PAT	Rs. Cr.	17.44	(31.81)
PAT Margin	(%)	2.34	(5.94)
Total Debt/Tangible Net Worth	Times	0.96	1.13
PBDIT/Interest	Times	1.59	0.79

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Sep 2021	Secured Overdraft	Long Term	10.00	ACUITE BB- Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE BB- Stable (Downgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	281.00	ACUITE BB- Stable (Downgraded from ACUITE BBB- Stable)
	Letter of Credit	Short Term	34.00	ACUITE A4 (Assigned)
	Cash Credit	Long Term	105.00	ACUITE BB- Stable (Downgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	3.22	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	2.78	ACUITE BB- Stable (Assigned)
07 May 2021	Cash Credit	Long Term	105.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	281.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE BBB- Stable (Reaffirmed)
10 Nov 2020	Cash Credit	Long Term	50.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	3.22	ACUITE A4+ Upgraded (from ACUITE A4)
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BB Stable Upgraded (from ACUITE BB-)
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	112.00	ACUITE BB Stable Upgraded (from ACUITE BB-)
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	105.00	ACUITE BB Stable Upgraded (from ACUITE BB-)
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE A4+ Upgraded (from ACUITE A4)
Kotak Mahindra Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB Stable Upgraded (from ACUITE BB-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.36	ACUITE BB Stable Upgraded (from ACUITE BB-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.57	ACUITE BB Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	6.42	ACUITE BB Stable Upgraded (from ACUITE BB-)
Bank of	Not	Term Loan	Not	Not	Not	19.43	ACUITE BB Stable

Baroda	Applicable		available	available	available		Assigned
Bank of Baroda	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	169.00	ACUITE BB Stable Upgraded (from ACUITE BB-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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