



Press Release
Aero Club
July 31, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	468.78	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	37.22	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	506.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on Rs.506.0 crore bank facilities of 'Aero Club'. The outlook is '**Stable**'.

Rationale for Rating Action

Acuite factors in experienced management, Improvement in Business, Moderate financial risk profile and adequate liquidity profile of the company. The revenue from operations of the company witnessed substantial improvement to Rs. ~1000 crore in FY2023 (Provisional) as against Rs. 745.72 crore in FY2022. Improvement in Revenue is on account of increase in price and Volume sale. The operating profit margin of the company moderated to 13.44 percent in FY2023 (Provisional) as against 15.91 percent in FY2022. Moderation is due one time inventory transfer to related party. PAT Margin improved & stood at 2.70 Percent in FY 2023(Prov.) as against 1.20 percent in FY 2022. Coupled to this coverage indicators witnessed minuscule improvement in FY 23(Prov.). Bank limit Utilization remain high.

Acuite believes that the company will grow its scale of operations in the volume terms and improve profitability while maintaining a healthy capital structure

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 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 390 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.

Business risk profile

Aero club's operation witnessed substantial improvement which is apparent from growth in revenue from operations by ~34% in FY2023 (Prov.) to Rs~1000 crore as against Rs. 745.72 crore for FY2022.(improved by 86.65 percent over the last three years FY 21 to FY 23). The operating profit margin of the firm moderated by 248 bps in FY 23 (Prov.).

Operating Profit Margin of firm stood at 13.44% in FY2023 (Prov.) as against 15.91% in FY2022 however the net profit margin of the company improved by 150 bps and stood at 2.70 percent in FY2023 (Prov.) as against 1.20 percent in FY 22. ROCE of the firm stood at 10.10 times in FY2023 (Prov.).

Financial Risk Profile -Moderate

Aero club has moderate financial risk profile marked by high net worth and moderate debt protection metrics and moderate gearing. Firm's net worth stood at Rs. 573.67 Cr (Prov.) as on 31st March 2023 as against Rs.587.10 Cr as on 31st March 2022. Firm follows conservative leverage policy. Despite profit accretions gearing levels (debt-to-equity) witnessed negligible moderation and stood below unity at 0.99 times as on March 31, 2023 (Prov.) as against 0.97 times in FY 2022. Moderation in Gearing Ratio in FY 23 is on account of reconstitution of firm in Dec 22 and withdrawals by partners.

Further, the interest coverage ratio witnessed negligible improvement by 11 bps and stood moderate at 1.64 times for FY2023 (Prov.) as against 1.53 times in FY2022. Likewise, Debt Service coverage ratio improved by 18 bps and stood moderate at 1.21 times for FY2023 (Prov.) as against 1.03 times in FY2022. Total outside liabilities to total net worth (TOL/TNW) stood at 1.35 times as on FY2023 (Prov.) vis-à-vis 1.27 times as on FY2022. Debt-EBITA improved and stood at 4.09 times as on 31st March 2023(Prov.) as against 4.62 times as on 31st March 2022. The Net Cash Accruals to Total debt stood at 0.09 times as on FY2023 (Prov.) and 0.06 times for FY2022. The financial risk profile of the company is expected to improve and remain comfortable in medium terms, as the company do not have any large capex plan in the medium term.

Weaknesses

Working capital operations- Intensive

Firm has improved yet intensive working capital requirements as evident from gross current assets (GCA) of 413 days in FY2023 (Prov.) as compared to 544 days in FY2022. Debtor days moderated by 7 days and stood at 53 days in FY2023 (46 days in FY2022). Inventory days witnessed substantial improvement of 129 days in FY 23 and stood at 278 days in FY 23(Prov.) as against 407 days in FY 22. Fund based working capital limits are utilized at ~99 per cent during the last twelve months ended April 23 while Non fund based limits utilization is ~78 percent.

Withdrawal of capital

As Aero Club is a partnership firm, there have also been instances of withdrawal of capital. there has also been net withdrawal of Rs.~ 40crore. Any significant withdrawal could impact the financial risk profile of the company.

Moderation in Operating Margin

Operating margin of the firm witnessed continuous moderation in operating margin. Operating Profit Margin of firm stood at 13.44% in FY2023 (Prov.) as against 15.91% in FY2022. Further moderation in Operating profit margin will impact the financial risk profile of the firm.

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

Firm has adequate liquidity marked by net cash accruals to its maturing debt obligations, current ratio, cash and bank balance. Firm generated cash accruals of Rs. 51.31 crore for FY2023 (Prov.) as against repayment obligations of Rs. 27.41 crore for the same period. Current Ratio stood at 1.53 times as on 31 March 2023(Prov.). Fund based working capital limits are utilized at ~99 per cent during the last twelve months ended April 23 while Non fund based limits utilization is 78 percent. Cash and Bank Balances of company stood at Rs 2.64 crore. The liquidity of the company is expected to improve with company expected to generate cash accruals in the range of Rs. 55 to 75 Cr against Rs 17 crore debt repayment obligation will also support the liquidity of the company.

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

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1000.34	745.72
PAT	Rs. Cr.	27.01	8.92
PAT Margin	(%)	2.70	1.20
Total Debt/Tangible Net Worth	Times	0.99	0.97
PBDIT/Interest	Times	1.64	1.53

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

CRISIL vide its press release dated 29th August 2022, had downgraded the company to CRISIL B/stable/A4; Issuer Not Cooperating.

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>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Aug 2022	Bank Guarantee	Short Term	3.22	ACUITE A4+ (Upgraded from ACUITE A4)
	Proposed Bank Facility	Long Term	0.57	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	105.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Secured Overdraft	Long Term	5.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Proposed Bank Facility	Long Term	1.36	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Letter of Credit	Short Term	34.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Term Loan	Long Term	6.42	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Term Loan	Long Term	19.43	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Working Capital Demand Loan	Long Term	169.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
	Cash Credit	Long Term	112.00	ACUITE BB Stable (Upgraded from ACUITE BB- Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	3.22	ACUITE A4+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE BB Stable Reaffirmed
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	254.92	ACUITE BB Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	105.00	ACUITE BB Stable Reaffirmed
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	34.00	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	40.27	ACUITE BB Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	18.59	ACUITE BB Stable Reaffirmed

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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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