Press Release

Aero Club

September 08, 2021

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.436.00 Cr. (Enhanced from Rs.50 Cr.)
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed and Assigned)

** Refer Annexure for details*

Rating Rationale

ERRATA: In the press release published on May 07, 2021, financials pertaining to FY19 was erroneously incorporated. Rectified financials for FY19 are incorporated in this version.

Acuité has reaffirmed and assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus**) on the Rs.436.00 crore bank facility of Aero Club. The outlook is **'Stable.'**

The rating action takes into account long track record of operations of ~28 years, experienced management, strong brand image in the premium footwear segment, integrated nature of operations and good resource mobilization ability of the partners. While the 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 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

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. 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 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 is likely to lead to a healthy revenue growth and an increase in its geographical presence over a 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 firm's net worth stood at Rs.551.71 crore as on March 31, 2020 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 obligations amidst stressed liquidity led by the pandemic. Capital infusion by partners of Rs.55.59 crore in FY21 and further ~Rs.18 crore likely in FY22 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 1.13 times as on March 31, 2020. The total debt of Rs.623.05 crore outstanding as on 31 March, 2020 comprises Rs.166.82 crore of term loans from the banks and financial institutions, Rs.0.66 crore of unsecured loans from promoters and Rs.455.57 crore of working capital borrowings. With fund infusion in FY21, the firm's debt to equity ratio is likely to have improved to 1.02 times as on March 31, 2021 and would continue to improve over a medium term, provided no significant deb-funded capex. Acuite expects, Aero Club's debt to equity ratio to stand ~0.70 times by March 31, 2023.

Interest coverage ratio (ICR) for FY20 stood at 1.60 times (PY: 1.75 times) and debt service coverage ratio was at 1.03 times. While in FY21, ICR is expected to have deteriorated marginally due to the Covid-19-led challenges, the ratio would improve gradually over a medium term. The total outside liabilities to tangible net worth (TOL/TNW) stood moderate at 1.54 times as on March 31, 2020.

Acuité 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

- **Working capital intensive nature**
  Aero Club has high gross current asset (GCA) days in the range of 400, on an average, for the last three years through March 31, 2020. The high GCA days are on account of its high inventory storage requirement (inventory days ~300 days during FY18-FY20) due to its large number of retail stores, leading to high reliance on working capital limits. The working capital limits of the firm were almost fully utilized for the last 7 months period ended March 2021. Acuite expects the incremental working capital requirements to continue to remain high 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 FY21 also, Aero Club's operations are significantly impacted by the COVID-19 pandemic, leading to a steep deterioration in the firm's ability to generate revenues. While, the firm has successfully re-negotiated the rental costs and has also taken significant measures to reduce its employee expenses by over 50 percent. 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. While the firm's revenue is likely to have plunged by ~46per cent in FY21, its net profit is expected to have declined by ~73per cent.

  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, sharp impact of the second wave of the pandemic and the firm's inability to recover from it would lead to a deterioration in the overall financial risk profile and liquidity position, imparting a negative bias on the rating.

- **High competitive intensity and changing consumer preferences**
  The footwear and apparel industry is highly fragmented with presence of lot of organized and unorganized players. Nearly 75-85per cent 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 the 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, adopting 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. In FY20, net cash accruals stood at Rs.46.27 crore compared Rs.41.93 crore of maturing debt obligations.

During FY21-FY23, the firm cash accruals would be in the rage of Rs.32 crore to Rs.65 crore against its maturing debt obligation of Rs.28 crore to Rs.71 crore during the same period. The gap between the debt obligations and cash accruals for FY21 and FY22 will be taken care of by the capital infusion of Rs.55.59 crore in FY21 and ~Rs.18 crore in FY22. The firm's current ratio has remained at a moderate level of ~1.5x during FY18-FY20.

Rating Sensitivities

- Ability to control operational cost to protect 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

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 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 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)

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)

Date	Name of Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Nov-2020	Cash Credit	Long Term	50.00	ACUITE BBB-/Stable (Assigned)

***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 BBB-/ Stable (Reaffirmed)
Union Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	105.00	ACUITE BBB-/ Stable (Assigned)
Bank of Baroda	Cash Credit	Not Applicable	Not Applicable	Not Applicable	281.00*	ACUITE BBB-/ Stable (Assigned)

**Includes WCDL sub-limit of Rs.169.00 crore*

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