

August 03, 2017

## Action Industrial Corporation

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Limits	6.00	[ICRA]BB+ (Stable); Reaffirmed
Fund-based Term Loan	0.85	[ICRA]BB+ (Stable); Reaffirmed
Non-fund Based Limits	2.50	[ICRA]A4+; Reaffirmed
Unallocated Limits – Short Term	0.43	[ICRA]A4+; Reaffirmed
<b>Total</b>	<b>9.78</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BB+ (pronounced ICRA double B plus) to the Rs. 6.85-crore<sup>1</sup> fund-based facilities and the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 2.93 crore non-fund based bank facilities of Action Industrial Corporation (AIC or the firm)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of AIC and its Group companies under Mr. Raj Kumar Gupta engaged in footwear business i.e., Euro forge Private Limited, Sanchit Polymers and Mahan Plastic Private Limited.

ICRA's ratings continue to draw comfort from AIC's established brand image and the promoter's long track record in the Indian footwear industry. ICRA's ratings continue to factor in the benefits enjoyed by the firm as a part of the Mr. Raj Kumar Gupta (RKG) faction of the Action Group, its extensive distribution network and diversified product portfolio. The ratings reaffirmation also takes into account the absence of intercompany transactions between the entities in the RKG faction of the Action Group. ICRA also takes note of the repayment of long-term debt, resulting in improved capitalisation indicators. However, the ratings are constrained by the firm's modest scale of operations and the highly working capital-intensive nature of the business on account of the high inventory and receivable levels. Further, the ratings continue to factor in the intense competition due to the fragmented nature of the Indian footwear industry and the strong presence of the unorganised players. The vulnerability of AIC's profitability to the fluctuation in raw material prices and the risks inherent in proprietorship firms (limited ability to raise capital, risk of dissolution etc.) are other areas of concern. Going forward, the firm's ability to improve its scale of operations and profitability as well as attain the optimal level of working capital intensity will be the key rating sensitivities.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

- **Experienced promoters with long track record and established brand in Indian footwear industry** -The Action Group was founded by Mr. Nand Kishore Aggarwal in the 1970s and is one of India's largest closely-held business conglomerates. The Group has different companies/firms in various business sectors. Established in 2005, Action Industrial Corporation (AIC) is a proprietorship firm promoted by Mr. Raj Kumar Gupta (son of Mr. Nanad Kishore Aggarwal). The firm is involved in the manufacturing of shoes, kids footwear, sandals etc.
- **Well-established distribution network-** The firm has a strong relationship with its distributors. The Group under Mr. Raj Kumar Gupta has a network of 832 distributors across 349 cities.
- **Improved capitalisation indicators-** Improved gearing as long-term debts have been repaid.

### Credit weaknesses

- **Moderate scale of operations:** The firm has a small scale of operations and has witnessed a modest year-over-year revenue growth of 5% in FY2016. The margins are marginally affected by the decline in realisation.
- **Highly competitive industry:** The Indian footwear industry is characterised by the strong presence of unorganised players and intensifying competition in the organised segment. This factor is expected to keep margins under pressure.
- **Risks inherent in proprietorship firm:** AIC was incorporated in 2005 as a proprietorship firm and is exposed to risks inherent for proprietorship firms such as limited ability to raise capital, and risk of dissolution etc.
- **Increased working capital intensity:** Increased inventory days due to an increase in order inflows in March 2016 resulted in higher net working capital intensity of the firm.

**Analytical approach:** For arriving at the ratings, ICRA has taken consolidated view of AIC and its group companies under Mr. Raj Kumar Gupta engaged in footwear business i.e., Euro forge Private Limited, Sanchit Polymers and Mahan Plastic Private Limited. ICRA has applied its rating methodologies as indicated below.

## Links to applicable criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Footwear Industry](#)

### About the company

Established in 2005, AIC is a proprietorship firm promoted by Mr. Raj Kumar Gupta. The firm is a part of the Action Group and comes under the faction of Mr. Raj Kumar Gupta. The firm is involved in the manufacturing of shoes, kids footwear, sandals etc. Its manufacturing facilities are located at Baddi, Himachal Pradesh and Bahadurgarh, Haryana.

### Key Financial Indicators (Audited)

	<b>FY2015</b>	<b>FY2016</b>
Operating Income (Rs. crore)	27.65	29.15
PAT (Rs. crore)	1.72	0.90
OPBDIT/ OI (%)	13.69%	12.50%
RoCE (%)	23.87%	18.02%
Total Debt/TNW (times)	1.64	0.84
Total Debt/OPBDIT (times)	2.60	2.05
Interest coverage (times)	2.78	1.83
NWC/ OI (%)	26%	36%

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years**
**Table**

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				Aug 2017	May 2016	April 2015	August 2014	
1	Fund-based Working Capital Limits	Long Term	6.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
2	Fund-based Term Loan	Long Term	0.85	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
3	Non-fund Based Limits	Short Term	2.50	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	
4	Unallocated Limits – Short Term	Short Term	0.43	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	

**Complexity level of the rated instrument**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1  
Instrument Details**

<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Fund-based Working Capital Limits	-	12.25%	-	6.00	[ICRA]BB+ (Stable)
Fund-based Term Loan	-	12.25%	June 2017	0.85	[ICRA]BB+ (Stable)
Non-fund Based Limits	-	-	-	2.50	[ICRA]A4+
Unallocated Limits – Short Term	-	-	-	0.43	[ICRA]A4+

Source: the firm

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