February 11, 2025

Mochiko Sports Private Limited: Rating downgraded to [ICRA]BBB(Stable)

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Issuer Rating	0.0	0.00	[ICRA]BBB(Stable); downgraded from [ICRA]BBB+(Stable)
Total	**0.00**	**0.00**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has taken a consolidated view of Mochiko Shoes Private Limited (MSPL) and its subsidiary Mochiko Sports Private Limited (Mochiko Sports), collectively referred to as the Mochiko Group, while assigning the credit ratings, given the common management and significant operational and financial linkages between the entities.

The rating downgrade considers a moderation in the company's earnings and debt coverage indicators over the past 12 months, and an expectation that even as the company's earnings are expected to gradually improve going forward, the debt coverage indicators will remain suppressed. The Group recorded a sharp decline in operating margins in FY2024 to 7.1% from 11% in FY2023, as the company was setting up new capacities and had hired manpower and, thus, started to incur fixed expenses. However, the capacity utilisation was low during the year, which resulted in under absorption of fixed overheads; the order flow was also relatively slower due to uncertainty over the Bureau of Indian Standards (BIS) implementation. The operating margins further declined to 3.8% in H1 FY2025 (provisional financials), owing to an increase in employee expenses, after a hike in minimum wages of the Uttarakhand Government by 25% from April 2024 (even as the pricing for existing orders from various customers was already tied up), coupled with ongoing capex, resulting in under absorption of fixed overheads. Moreover, owing to substantial debt-funded capex (~Rs. 150 crore over FY2024-FY2025) and high working capital requirements of the Group, the total debt increased to ~Rs. 402 crore as on September 30, 2024 compared to ~Rs. 230 crore as on March 31, 2023, resulting in weakening of debt coverage indicators (reflected in interest coverage of 1.8 times in FY2024 over around 4 times in FY2023 and DSCR of 1.1 times in FY2024 against around 3 times in FY2023). Even as the margins are expected to gradually improve during FY2026, the debt coverage indicators are expected to remain at moderate levels (DSCR expected to range at levels of 1.3-1.4 times).

The ratings, despite the moderation in performance, continue to draw comfort from the Group's long track record in sports footwear manufacturing as well as strong associations with reputed international footwear brands such as Adidas, Reebok, Puma, who continue to be its repeat customers over many years. On the back of increasing capacities, the Group has seen healthy revenue growth in the last two financial years (60% and 10% in FY2023 and FY2024, respectively). The capacities have increased to 9.5 lakh pairs/month as on date from 7.25 lakh pairs/month, which is further expected to support a scale up in operations going forward. Moreover, the Group has a healthy order book position, which provides revenue visibility. Over the past one to two years, the Group has also onboarded newer brands such as Skechers, Decathlon, Asics, Crocs and have been getting steady order inflow from them, which provides comfort to the Group's ability to achieve improved capacity utilisation. The rating also considers the Group's operational synergies through backward integration as most of its requirements for shoe soles are being met in-house.

The ratings also continue to factor in favourably the financial flexibility enjoyed by the Group on account of it being a 100% subsidiary of Agiltas Sports Private Limited (Agiltas). Agiltas has supported the scale-up in operations of the company by arranging fixed deposit-backed overdraft facilities to help fund the working capital requirements. Additionally, the parent is at advanced stages of discussions to convert the loan extended to the Group (outstanding of ~Rs. 50 crore as on December 31, 2024) into equity to help improve the net worth position. Agiltas continues to maintain healthy liquidity (cash and liquid investments of ~Rs. 250 crore as on date) and is expected to continue to support the Mochiko Group's funding requirements, going forward.

The ratings remain constrained by the limited bargaining power of the Group against internationally acclaimed brands in a highly competitive industry, even as Mochiko Group remains one of the leading players in the industry with established relationships with leading brands. Moreover, the Mochiko Group is exposed to customer concentration risks, with its top three customers contributing to ~80% of revenues in FY2024. ICRA notes that with addition of Skechers as a major customer, the customer concentration risk is expected to moderate to an extent over the medium term. In addition, the Group's customers are present in the sportswear and apparel retail segment, exposing their business operations to any adverse macroeconomic events, which may impact the discretionary spending levels of consumers, thereby impacting the business growth of the Group.

The Stable outlook considers that Mochiko will continue to benefit from continued healthy orders from a reputed clientele, which is expected to support a ramp-up in capacity utilisation over the near term and improve the margins and debt coverage indicators.

Key rating drivers and their description

Credit strengths

Healthy growth in scale of operations; continued orders from reputed clients provide revenue visibility: The Group's revenue increased to Rs. 711.2 crore in FY2024 from Rs. 401.1 crore in FY2022, on account of healthy inflow of orders. The revenues are further expected to increase to Rs. 950-1,000 crore in the current fiscal on the back of enhanced capacities. The order book remains healthy (~three months), which provides revenue visibility in the near term. The company has established relationships with international brands, such as Adidas, Reebok, Puma, etc., who have been the Group's repeat customers for many years. The Group has also onboarded new brands such as Skechers, Decathlon, Asics, Crocs, etc., and order inflows from them have been steadily increasing, thus, supporting scale.

Integrated manufacturing operations support cost competitiveness: The Group has operational synergies with backward integration by manufacturing soles at its factories in Fabsol and Soltec. Fabsol manufactures rubber soles and Soltec ethyl vinyl acetate (EVA) soles. The soles are used for captive consumption and the excess production is sold to third parties as well.

Experienced management with long track record in footwear: The management of the Mochiko Group has an experience of over 25 years in the footwear manufacturing industry. MSPL, including Mochiko Sports, was acquired by Agilitas Sports Private Limited (ASPL) in FY2023. ASPL is founded by Mr. Abhishek Ganguly, former MD of Puma India, along with Mr. Atul Bajaj, ED – Sales and Operations and Mr. Amit Prabhu, CFO, Puma India. The promoters also have experience in the footwear industry, which is likely to aid healthy order inflows for the Group.

Credit challenges

Moderation in profitability over recent past resulted in weak debt coverage indicators: The Group recorded a sharp decline in operating margins in FY2024 to 7.1% from 11% in FY2023, as the company was setting up new capacities and had hired manpower and, thus, started to incur fixed expenses. However, the capacity utilisation was low during the year which resulted in under absorption of fixed overheads. Moreover, order flow was relatively slower due to uncertainty over BIS implementation. The operating margins further declined to 3.8% in H1 FY2025, owing to an increase in employee expenses, after an increase in minimum wages of the Uttarakhand Government by 25% from April 2024 (even as the pricing for existing orders from various customers was already tied up), coupled with ongoing capex, resulting in under absorption of fixed overheads. Going forward, the Group's ability to increase revenues, along with improvement in leverage and coverage indicators will remain a key monitorable.

Customer concentration risks: The Mochiko Group is also exposed to customer concentration risks, with the top three customers contributing to ~80% of revenues in FY2024 and 8M FY2025. However, ICRA notes that the recent addition of new customers and established position of existing brands in the footwear industry mitigate the risk to an extent. Its customers are present in the sportswear and apparel retail segment, exposing their business operations to any adverse macroeconomic events which may impact the discretionary spending levels of consumers. This would impact the business growth of the Group.

High competition limits bargaining power: Footwear manufacturing is a highly competitive industry, which is mostly dominated by the unorganised sector and has a few large players in the organised space, thus limiting bargaining power of the Group against internationally acclaimed brands. However, ICRA notes that Mochiko Group remains one of the leading players in the industry with established relationships with leading brands. Additionally, the applicability of Quality Control Orders (QCO) norms is likely to reduce competition and benefit Indian manufacturers, including the Mochiko Group.

Liquidity position: Adequate

The Mochiko Group's liquidity position remains adequate, supported by steady cash flows from operations and adequate cushion in its working capital limits to meet any additional working capital requirements. The company has repayment obligations of ~Rs. 14 crore during FY2024-25 (at a consolidated level) and around ~Rs 23 crore in FY2026. The company has recently enhanced its manufacturing capacities across various divisions and is expected to incur capex of Rs. 20-30 crore in H2 FY2025; the same is expected to be funded through a mix of debt and internal accruals. The parent company, Agilitas, is also expected to provide interim support to liquidity, as and when required.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a material improvement in earnings, leading to improved debt coverage metrics and liquidity position on a sustained basis.

Negative factors – Any material deterioration in business from reputed customers, impacting the company's scale of operations/earnings and resulting in deterioration in debt coverage indicators and liquidity position on a sustained basis, could exert pressure on the ratings Specific trigger credit metric for a downward rating movement will be DSCR of less than 1.2 times, on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Footwear
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of Mochiko Sports and its parent company MSPL for arriving at the ratings; ICRA has considered the consolidated financials of MSPL. As on March 31, 2024, MSPL had three subsidiaries, which are enlisted in Annexure-II.

About the company

Mochiko Sports Private Limited was incorporated on 20.02.2020. It is engaged into the manufacturing of shoes with the manufacturing units located in Noida and Dehradun, Uttarakhand. The Company is into manufacturing of footwear, leather goods and accessories. The Company has tied up with a multinational brand namely Skechers, US Polo, Aditya Birla (Reebok), and Adidas India for 100% buy back of its production and is catering to their domestic requirement in India as well as export.

Key financial indicators (audited)

Mochiko Sports	Standalone		MSPL Consolidated	
	FY2023	FY2024	FY2023	FY2024*
Operating income	94.4	273.7	599.2	711.2
PAT	3.2	0.6	28.6	-4.5
OPBDIT/OI	16.3%	7.5%	11.0%	7.1%
PAT/OI	3.4%	0.2%	4.8%	-0.6%
Total outside liabilities/Tangible net worth (times)	228.5	150.7	3.6	4.6
Total debt/OPBDIT (times)	6.8	4.8	3.5	5.4
Interest coverage (times)	1.9	1.6	4.4	1.8

*Source: Company, ICRA Research; *Company Estimates s; All ratios as per ICRA's calculations; Amounts in Rs. crore*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 11,2025	Date	Rating	Date	Rating	Date	Rating
Issuer Rating	Long term	0.00	[ICRA]BBB(Stable)	Nov-08-23	[ICRA]BBB+(Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Issuer Rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Issuer Rating**	NA	NA	NA	0.00	[ICRA]BBB(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company name	MSPL ownership	Consolidation approach
Mochiko Shoes Private Limited	100.00%	Full consolidation
Mochiko Sports Private Limited	100.00%(rated entity)	Full consolidation
Poonam Breads (India) Private Limited	100.00%	Full consolidation
Shutec Footwears LLP	70.00%	Full consolidation

Source: company data

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