November 08, 2023

Mochiko Shoes Private Limited: [ICRA]BBB+(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB+(Stable); assigned
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating takes a consolidated view of the credit risk profiles of Mochiko Shoes Private Limited (MSPL) and Mochiko Sports Private Limited (Mochiko Sports) due to operational, financial and managerial linkages between the two entities. The two entities are together referred to as the Mochiko Group.

The assigned rating draws comfort from the Group's long track record in the sports footwear manufacturing as well as strong association with reputed international footwear brands such as Adidas, Reebok and Puma, which continue to be its repeat customers over the past many years. After getting impacted by the pandemic in FY2021, the company witnessed a healthy revenue growth in the last two financial years (88% and 60% in FY2022 and FY2023, respectively) as a result of increasing capacities, and a healthy order inflow from existing as well as new customers. The capacities have increased from ~3.5 lakh pairs/month to ~7.25 lakh pairs/ month now, which is further expected to support scale, going forward. Moreover, the Group has a healthy order book position, which provides future revenue visibility. In addition, in the recent past, the Group has also onboarded new brands such as Skechers, Decathlon, Asics, Crocs and have been getting steady orders from them. Further, the Quality Control Orders (QCO) guidelines on footwear applicable from January 2024 is likely to benefit the Mochiko Group as all its facilities are BIS certified. In FY2024, the scale is expected to significantly improve, which along with steady margins is likely to improve the overall net cash accruals for the Group.

The rating also considers the Group's operational synergies via backward integration as most of its requirement of shoe soles is met in-house. Also, the cost-plus model in product pricing supports the operating margins, which remained steady at 11-12% in the last two financials years and is expected to remain healthy, going forward. While margins remain healthy, the capital structure is moderately leveraged with a gearing of ~2.6 times in FY2023 due to low net worth position compared to the current debt level. The debt coverage indicators also remained moderate with an interest cover of ~4.4 times and Total debt/OPBITDA of 3.5 times in FY2023. The coverage indicators are expected to remain moderate in FY2024 and meaningful improvement is expected from FY2025 with likely further improvement in the overall profits and scheduled repayments of loans. The ratings are also constrained by the low bargaining power of the Group against internationally acclaimed brands. Moreover, the Mochiko Group is also exposed to customer concentration risks, with the top three customers contributing ~71% to revenues in FY2023. However, ICRA notes that recent addition of new customers is expected to mitigate the risk to an extent in the near-to-medium term. In addition, the Group's customers are present in sportswear and apparel retail segment, which exposes their business operations to any adverse macroeconomic event, which may impact the discretionary spending levels of consumers, thereby impacting the business growth of the Group as a whole.

The Stable outlook considers that Mochiko will continue to benefit from continued healthy orders from its reputed clientele, which is expected to support the revenue and profits in the near-to-medium term. The cash flows are expected to remain comfortable relative to debt servicing obligations of the entity.

Key rating drivers and their description

Credit strengths

Marked improvement in revenues in FY2023; continued healthy orders from reputed clients provide revenue visibility – The Group's revenue increased from Rs. 401 crore in FY2022 to around Rs. 642 crore in FY2023, an increase of almost 60%, on account of healthy inflow of orders in the contract manufacturing segment. The order book continued to remain healthy (~3 months), **which provides revenue visibility in the near term. The company has established relationships with international brands such as Adidas, Reebok, Puma etc., which have been the Group's repeat customers for many years. In addition, the Group has also onboarded new brands such as Skechers, Decathlon, Asics, Crocs etc. and order inflows from them are steadily increasing, thus, supporting scale. The operating margins also remained steady at 11-12% in FY2022 and FY2023.**

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

Operational synergies with backward integration – The Group has operational synergies with backward integration by manufacturing of soles by Fabsol and Soltec. Fabsol manufactures rubber soles and Soltec produces ethyl vinyl acetate (EVA) soles. The soles are used for captive consumption and excess production is sold to third parties as well.

Credit challenges

Modest net worth position, resulting in high leverage – The financial risk profile of the company remains moderate. The capital structure is moderately leveraged with a gearing of ~2.6 times in FY2023 due to low net worth position compared to the current debt levels. The debt coverage indicators also remained moderate with an interest cover of ~4.4 times and Total debt/OPBITDA of 3.5 times in FY2023. The coverage indicators are expected to remain moderate in FY2024 and meaningful improvement is expected from FY2025 with likely further improvement in the overall profits and scheduled repayments of loans. Going forward, the Group's ability to increase revenues, along with improvement in leverage and coverage indicators will be monitored.

Customer concentration risks – The Mochiko Group is exposed to customer concentration risks, with the top three customers contributing ~71% to revenues in FY2023. However, ICRA notes that the recent addition of new customers and established position of the existing brands in the footwear industry mitigate the risk to an extent. Its customers are present in sportswear and apparel retail segments, which expose their business operations to any adverse macroeconomic events, which may impact the discretionary spending levels of consumers, affecting the business growth of the Group as a whole.

Intense competition resulting in lower bargaining power – The footwear manufacturing is a very competitive industry, which is mostly dominated by the unorganised sector and few large players in the organised space, thus, limiting the bargaining power of the Group against internationally acclaimed brands. However, the applicability of QCO norms is likely to reduce competition and benefit Indian manufacturers, including the Mochiko Group.

Liquidity position: Adequate

MSPL and Mochiko Sports' liquidity position remains adequate with healthy cash flow from operations, which is expected to improve further with increase in scale. The annual repayment obligations remain low at Rs. 13-14 crore during FY2024-25 (consolidated). Further, the company has adequate cushion in its working capital limits (~40%) to meet any additional working capital requirement.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant increase in its scale, while maintaining healthy operating profitability. A specific trigger for rating upgrade will be interest cover of ~4.5 times on a sustained basis.

Negative factors – The rating could be downgraded in case of any adverse impact on the revenue/ profitability of the company, leading to deterioration in debt protection metrics and liquidity position. A specific trigger for a downward rating revision will be DSCR of less than 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology -Footwear
Parent/Group support	Consolidated view of Mochiko Shoes Private Limited and Mochiko Sports Pvt Ltd due to operational, financial and managerial linkages
Consolidation/Standalone	Consolidated financials are considered

About the company

Mochiko Shoes Private Limited was incorporated on 14.08.2007 by Mr. Virender Awal, Mr. Rajender Taneja, Mr. Anup Rawat, Mr. Anil Kumar Sahoo and Mr. Samrendra Parida as promoters. It is engaged into the manufacturing of shoes at manufacturing units located in Dehradun, Utarakhand. The operations commenced in August 2008 with its first production for manufacturing complete shoes from unit located in Dehradun. The company has another unit located in Noida, Uttar Pradesh which is engaged in manufacturing of shoe uppers and accessories. The company has tied up with a multinational brand namely Adidas India Pvt. Ltd., Aditya Birla (Reebok), PUMA, Skechers, Decathlon, New Balance, USPA, asics, for 100% buy back of its production and is catering to their domestic requirement in India. The current total installed capacity for production is 42.0 lakh pair of shoes per annum. MSPL has been acquired by Agilitas Sports Pvt Ltd in FY2023.

Key financial indicators (audited)

MSPL	Standalone		Consolidated
	FY2022	FY2023	FY2023
Operating income	196.6	559.8	599.2
PAT	6.0	24.2	28.6
OPBDIT/OI	7.3%	8.9%	11.0%
PAT/OI	3.0%	4.3%	4.8%
Total outside liabilities/Tangible net worth (times)	2.1	2.7	3.6
Total debt/OPBDIT (times)	2.4	3.1	3.5
Interest coverage (times)	3.5	4.6	4.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 8, 2023	-	-	-
1	Issuer rating	Long term	-	-	[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	-	-	-	-	[ICRA]BBB+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mochiko Shoes Private Limited	100% (Parent)	Full consolidation
Mochiko Sports Private Limited	100%	Full consolidation

Source: Company.

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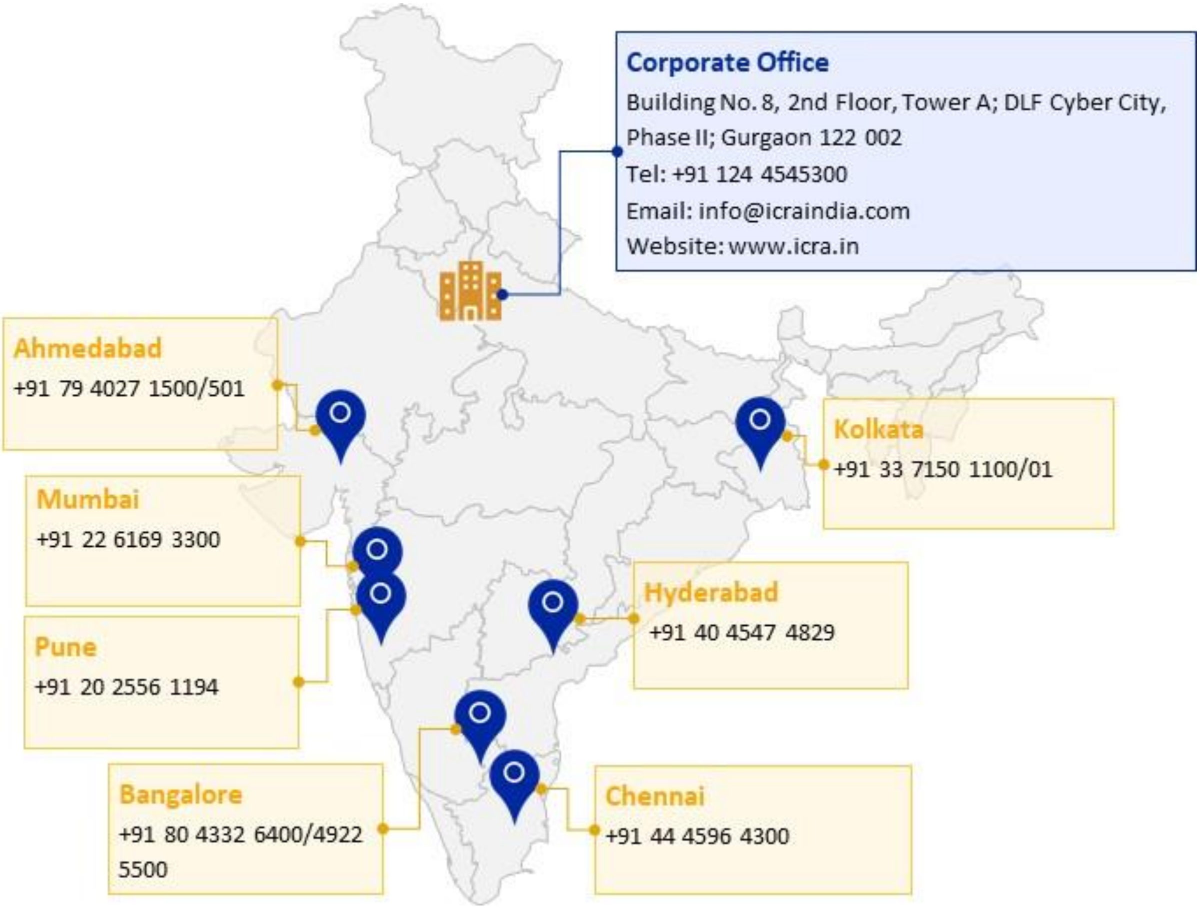

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