April 05, 2024

Archies Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash credits	23.10	23.10	[ICRA]BB (Negative); reaffirmed
Long-term – Non-fund based	1.00	1.00	[ICRA]BB (Negative); reaffirmed
Total	**24.10**	**24.10**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation and continuation of Negative outlook for Archies Limited (Archies/company) factor in its modest scale of operations, high working capital intensity and leverage levels. The company's revenues are estimated to remain modest at Rs. 81-85 crore in FY2024 and FY2025 (FY2023: Rs. 86 crore) due to closure of few of the company-owned stores and continue to be affected by the structural shift in the gifting and greeting industry towards the digital medium. While cost-rationalisation initiatives resulted in an increase in operating margins to 13.2% in 9M FY2024 (FY2023: 5.2%), the sustainability of the trend remains to be seen. The company's working capital intensity remained high at 65% in FY2023 due to increased levels of inventory. This, along with modest operating profits, is likely to result in high leverage with Total Debt/OPBDITA expected to be in the range of 5.1x-5.3x as of March 2024 and 4.5x -4.7x in March 2025 (11.3x as of March 2023). The rating is also constrained by the exposure of the company's operations to consumer spending trends and threat from alternative communication media. The rating factors in the declining trend in the number of company-owned and operated stores in the recent past, which has impacted the penetration level and sales.

The rating, however, favourably factors in Archies' experienced promoters and its proven operational track record in the organised social expressions market in India, which enabled it to build an established brand presence. The company has a pan-India distribution network of 97 owned and operated stores as of December 2023. However, it generates a major share of revenues from its stores in the North Indian states (~77% in 9M FY 2024), which makes its business critically dependent on consumer spending and macroeconomic factors impacting the region. The rating also draws comfort from the continuation of financial support extended by the promoters, in the past, in the form of unsecured loans of Rs. 3.1 crore in 9M FY2024 and Rs. 3.5 crore as of March 2023 (FY 2022: Rs. 1.6 crore). ICRA expects similar support from the promoters through unsecured loans to bridge funding gaps, if any, to continue over the medium term.

Key rating drivers and their description

Credit strengths

Established brand presence in domestic market – Archies has a successful operational track record which has enabled it to build a strong brand presence in the organised social expressions industry in India. The company has a pan-India distribution network of 97 owned and operated stores as of December 2023. However, it generates a major share of revenues from its stores in the North Indian states (~77% in 9M FY2024), which makes its business critically dependent on consumer spending and macroeconomic factors impacting the region.

Experienced promoters with established track record in organised social expression industry – Archies and its promoters have been involved in the social expressions industry for more than four decades. The promoters' long presence in the industry has aided the company to establish a strong foothold in the domestic organised social expressions market, which supported its business growth in the past. The brothers, Mr. Anil Moolchandani and Mr. Jagdish Moolchandani, hold key positions and are supported by a professional team.

Credit challenges

Modest scale of operations – The company has modest scale of operations, with revenues estimated at Rs. 81-85 crore in FY2024 and FY2025 (FY2023: Rs. 86 crore) due to closure of few of the company-owned stores and continue to be affected by the structural shift in the gifting and greeting industry towards the digital medium. While cost-rationalisation initiatives resulted in an increase in operating margins to 13.2% in 9M FY2024 (FY2023: 5.2%), the sustainability of the trend remains to be seen.

High leverage and working capital intensity – The company's working capital intensity remained high at 65% in FY2023 due to increased levels of inventory. This, along with modest operating profits, is likely to result in high leverage with Total Debt/OPBDITA expected to be in the range of 5.1-5.3x as of March 2024 and 4.5 -4.7x in March 2025 (11.3x as of March 2023).

Exposure to consumer spending trends and intense competition in the segment – The company's sales, profitability and cash accruals are closely linked to consumer confidence and spending patterns, especially considering the discretionary nature of its products. The sales remain vulnerable to changes in consumer preferences. The number of company-owned and operated stores have declined in the recent past, which impacted the penetration level and sales.

ESG risks

Environmental considerations: PVC, polypropylene and plywood remain the key raw materials for the gifting and stationery manufacturing industry. These are some of the environmentally damaging plastics and are non-biodegradable petroleum-based products. Hence, the company is exposed to the risk of tightening regulations on environment and safety, which can have a potential bearing on the cost structure. However, the company is also mitigating the environmental concerns by reducing dependence on plywood and to minimise wood wastage.

Social considerations: Changing consumer behaviour towards environmentally sustainable products and increasing shift towards online sales and limited presence of the company in online channels could impact the demand of the company's products. Overall, its exposure to environment and social risks remains moderate.

Liquidity position: Adequate

Archies' liquidity position is adequate, supported by undrawn fund-based limits of ~Rs. 5 crore on an average for past 12 months. The company has Rs. 0.25 crore and Rs. 0.8 crore of debt repayment obligations in Q4 FY2024 and FY2025, respectively, which are expected to be met from its cash flow from operations.

Rating sensitivities

Positive factors – The outlook can be revised to Stable, if there is a healthy growth in profitability, along with improvement in its debt coverage metrics and liquidity profile, on a sustained basis.

Negative factors – Pressure could emerge on the rating, if a significant decline in sales and profitability results in moderation in credit metrics. Further, lack of timely financial support from promoters to bridge funding gaps, if any, would also lead to downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for entities - Retail
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Archies Greetings & Gifts was promoted by Mr. Anil Moolchandani and Mr. Jagdish Moolchandani in 1979 as a partnership firm. In 1995, it was converted into a public limited company and later renamed as Archies Limited in November 2002. Archies has an established presence in the social expressions industry in India and is a renowned retailer of greeting cards, gifts and stationery items. Its selling and distribution network across India comprises 97 company-owned and operated stores, apart from distributors, franchisees, and retailers. Its manufacturing facility is in Manesar, Haryana.

Key financial indicators (audited)

Archies Standalone	FY2022	FY2023	9M FY2024*
Operating income	77.2	86.0	58.3
PAT	-2.6	2.4	0.4
OPBDIT/OI	10.4%	5.2%	13.2%
PAT/OI	-3.4%	2.8%	0.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	-
Total debt^/OPBDIT (times)	7.4	11.3	-
Interest coverage (times)	1.4	0.9	2.0

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ^Total Debt = External debt + Lease liabilities + Promoter Loans*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 05, 2024	-	Mar 13, 2023	Mar 31, 2022
1	Fund-based	Long-term	23.10	21.0	[ICRA]BB (Negative)	-	[ICRA]BB (Negative)	[ICRA]BB (Negative)
2	Non-fund based	Long-term	1.00	-	[ICRA]BB (Negative)	-	[ICRA]BB (Negative)	[ICRA]BB (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based	Simple
Long-term – Non-Fund Based	Very Simple

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	**Long-term – Fund-based**	-	9.05%	-	23.10	[ICRA] BB (Negative)
NA	**Long-term – Non-fund based**	-	-	-	1.00	[ICRA] BB (Negative)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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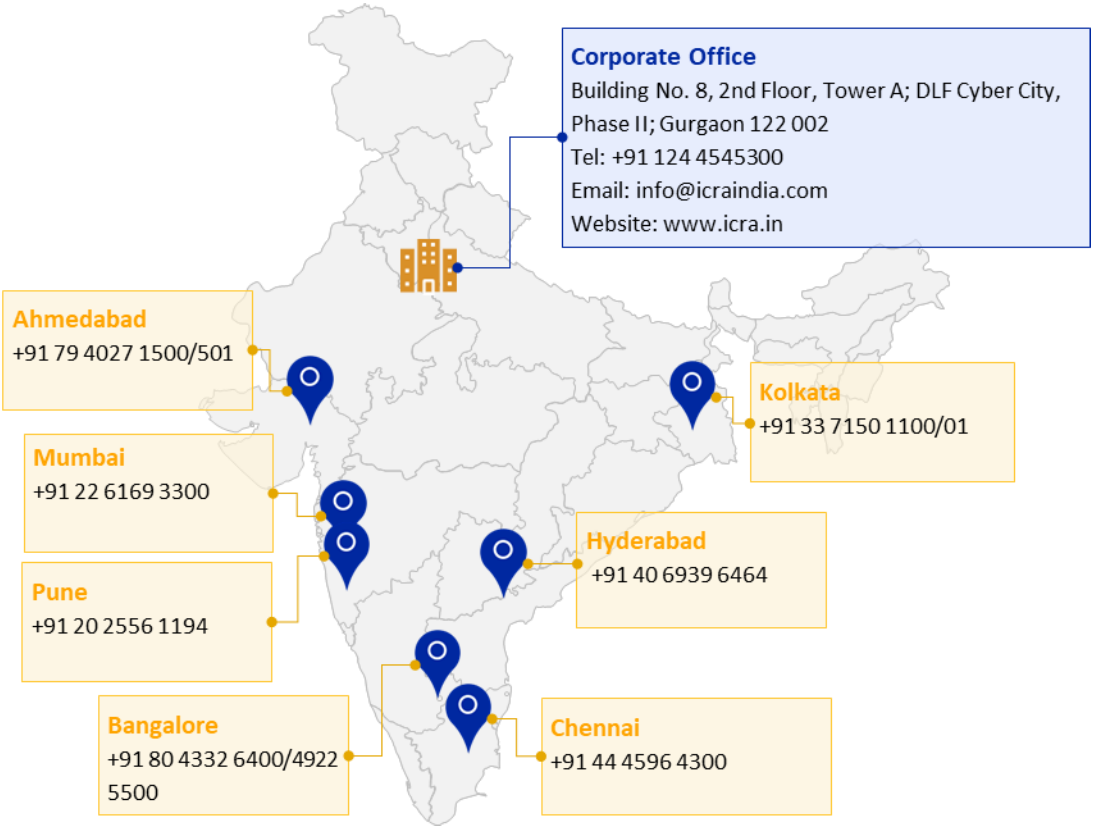

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