November 25, 2024 (Revised)

Archies Limited: Ratings downgraded to [ICRA]BB- from [ICRA]BB with change in outlook to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Cash credit	23.10	23.10	Downgraded to [ICRA]BB- (Stable); from [ICRA]BB with change in outlook to Stable from Negative
Long-term – Non-fund based	1.00	1.00	Downgraded to [ICRA]BB- (Stable); from [ICRA]BB with change in outlook to Stable from Negative
Total	**24.10**	**24.10**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for the bank facilities of Archies Limited (Archies) factors in its sustained high working capital intensity due to elevated inventory days, which along with inventory write-off resulted in moderate operating profits and weak debt protection metrics. ICRA expects the company's revenues to remain modest at around Rs. 70-75 crore in FY2025 (PY: decline of 7% at Rs. 80.1 crore) affected by the structural shift in the gifting and greeting industry towards the digital medium. Archies has reported moderate operating margins of 8.2% in H1 FY2025 (FY2024: 5.9% and H1 FY2024: 10.5%) and has been reporting operating losses in Q4 over the last 2 years due to inventory write-offs. The company's working capital intensity has remained high increasing to 88.9% in H1 FY2025 from 72.1% in FY2024 owing to increased levels of inventory. This along with the moderate operating profits are likely to result in high leverage levels with Total Debt/OPBITDA expected to be in the range of 6.9-7.2 times as of March 2025 (PY: 5.9 times) and weak debt coverage metrics. The rating is 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 87 owned and operated stores as of September 2024. However, it generates a major share of revenues from its stores in the North Indian states (~82% in H1 FY2025), which makes its business critically dependent on consumer spending and macroeconomic factors impacting the region. The rating draws comfort from the financial support extended by the promoters, in the past, in the form of unsecured loans of Rs. 2.5 crore as of September 2024.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's sales will be supported by its established brand presence and distribution network. Further, ICRA expects continued financial support from the promoters through the infusion of unsecured loans to bridge any funding gaps.

Key rating drivers and their description

Credit strengths

Established brand presence in domestic market – Archies has a successful 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 87 owned and operated stores as of September 2024. However, it generates a major share of revenues from its stores in the North Indian states (~82% in H1 FY2025), 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

High working capital intensity; inventory write-offs and weak debt protection metrics – The company's working capital intensity remained high, increasing to 88.9% in H1 FY2025 from 72.1% in FY2024 due to increased levels of inventory. It has reported moderate operating margins of 8.2% in H1 FY2025 (FY2024: 5.9% and H1 FY2024: 10.5%) and has been reporting operating losses in Q4 over the last 2 years owing to inventory write-offs. This along with the moderate operating profits is likely to result in high leverage levels with Total Debt/OPBITDA expected to be in the range of 6.9-7.2 times as of March 2025 (PY: 5.9 times) and weak debt coverage metrics.

Modest scale of operations – ICRA expects the company's revenues to remain at modest levels of around Rs. 70-75 crore in FY2025 (PY: decline of 7% at Rs. 80.1 crore) affected by the structural shift in the gifting and greeting industry towards the digital medium.

Exposure to consumer spending trends and intense competition in the segment – The rating is 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.

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, it is mitigating the environmental concerns by reducing dependence on plywood and trying 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 its products. Overall, its exposure to environment and social risks remains moderate.

Liquidity position: Stretched

Archies' liquidity position is stretched as reflected by limited cash generation and moderate cash and bank balance of Rs. 0.4 crore as on September 30, 2024. The company has a high average working capital utilisation of around 85-90% during the past

12 months ending September 2024. Further, in the past, the promoters have infused funds in the form of unsecured loans in the company, which is expected to continue as and when need arises.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a material improvement in the scale and profitability, along with improvement in 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, any material write-off or buildup of working capital can exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology 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 in November 2002, it was renamed Archies Limited. The company 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 87 company-owned and operated stores as of September 2024, apart from distributors, franchisees, and retailers. Its manufacturing facility is in Manesar, Haryana.

Key financial indicators (audited)

Archies Standalone	FY2023	FY2024	H1 FY2025*
Operating income	86.0	80.1	33.5
PAT	2.4	-8.2	-0.4
OPBDIT/OI	8.7%	5.9%	8.2%
PAT/OI	2.8%	-10.3%	-1.2%
Total outside liabilities/Tangible net worth (times)	0.6	0.7	0.6
Total debt/OPBDIT (times)	2.7	5.9	5.5
Interest coverage (times)	1.4	0.9	1.1

*Source: Company, ICRA Research; * Result 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

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Nov 25, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based	Long Term	23.10	[ICRA]BB-(Stable)	05-Apr-24	[ICRA]BB (Negative)	-	-	13-Mar-23	[ICRA]BB (Negative)	31-Mar-22	[ICRA]BB (Negative)
Non-fund based	Long Term	1.00	[ICRA]BB-(Stable)	05-Apr-24	[ICRA]BB (Negative)	-	-	13-Mar-23	[ICRA]BB (Negative)	31-Mar-22	[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	-	9.5%	-	23.10	[ICRA]BB- (Stable)
NA	Long-term – Non-fund based	-	-	-	1.00	[ICRA]BB- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

Corrigendum

Rationale dated November 25, 2024, has been revised with following changes:

- Revision in Total debt/OPBDIT under Key Financial Indicator section of H1 FY2025.

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