

Archies Limited

Instrument	Amount	Rating Action
	In Rs. Crore	As on October 2016
Commercial Paper	15.0	[ICRA]A2 revised from [ICRA]A1
Fund Based Limits	30.0	[ICRA]BBB+ (Stable) revised from [ICRA]A (stable)
Non Fund Based Limits	3.0	[ICRA]BBB+ (Stable) revised from [ICRA]A (stable)

ICRA has downgraded the rating for the Rs. 15 crore¹ Commercial Paper Programme of Archies Limited (Archies)² from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A2 (pronounced ICRA A two). ICRA has also downgraded the rating for the Rs. 30.0 crore fund based limits and Rs. 3.0 crore non fund based limits of the company from [ICRA]A (pronounced ICRA A) to [ICRA]BBB+ (pronounced as ICRA triple B plus). The outlook on the long term rating is stable.

The revision in ratings takes into account stagnation in operating income owing to modest business prospects of the brick-and-mortar social expression industry (greeting cards and gift), against the availability of digital modes of expression, increasing consumer preference for online gifting and the ease offered by e-commerce websites. Archies' own presence in e-commerce has been modest and has not contributed meaningfully to the company's performance as it faces challenges of high competition. Further there has been a consistent decline in the number of Archies stores, both company owned as well as franchisee owned. Stagnation in operating income vis-à-vis increasing fixed overheads like rentals and employee expenses has resulted in consistent decline in profitability levels, with company reporting net loss in Q1FY2017. The ratings also remain constrained by the high working capital intensity of business on the back of high inventory levels, with risk of obsolescence.

The ratings however continue to favorably factor in Archies' experienced promoters; its long track record of operations in the organized social expressions market in India; and its extensive distribution network. The ratings also factor in the company's strong capital structure, which has cushioned the pressures on the profitability and translated into comfortable liquidity and healthy debt coverage indicators as reflected by interest coverage of 3.44 times, debt/OPBDITA of 1.61 times and NCA/Debt of 49% as on March 31, 2016. In order to cope up with the changing buying patterns of the consumer, the company has taken steps such as revamping its online portal, tying up with several e-retailers for its products, and tying up with an international cosmetics brand for distribution in India. However, the contribution of these to the turnover and internal accrual generation of the company remains to be demonstrated.

Going forward, company's ability to demonstrate growth its operating income and thus improvement in profitability amid significant market challenges would remain the key rating sensitivities.

Company Profile

Archies Greetings & Gifts was promoted by Mr. Anil Moolchandani and Mr. Jagdish Moolchandani in 1979 as a partnership firm. In 1995, the company was converted into a public limited company and in November 2002, the company was renamed Archies Limited. Archies has an established presence in the social expressions industry in India and is a renowned retailer of greeting cards, gifts and stationery items. It has strong selling and distribution network across India comprising around 229 company owned stores, apart from distributors, franchisee and retailers. It has tie-ups with Hallmark Inc. USA, Smiley World, UK Greetings for sourcing designs and artwork. Archies also has tied ups with social cause organizations such as Helpage, Cry and UNICEF. The manufacturing facility of the company is situated in Manesar.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications.

Latest Results

During FY2016, Archies reported a net profit after tax (PAT) of Rs. 2.89 crore on an operating income of Rs. 194.73 crore vis-à-vis PAT of Rs. 4.12 crore on an operating income of Rs. 195.69 crore during FY2015.

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