March 31, 2022

Archies Limited: Rating downgraded to [ICRA]BB (Negative) from [ICRA]BB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	30.0	28.80	[ICRA]BB (Negative); downgraded from [ICRA]BB+ (Stable)
Long-term – Non-fund Based	3.0	1.0	[ICRA]BB (Negative); downgraded from [ICRA]BB+ (Stable)
Total	**33.0**	**29.80**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action takes into account the considerable impact on Archies Limited's (Archies) sales and accruals on account of the Covid-19 pandemic-related restrictions implemented by the Central and state governments, and the structural shift in the gifting and greeting industry towards digital mediums. The operating income (OI) declined to Rs. 55.29 crore in FY2021 and stood at Rs. 53.91 crore in 9M FY2022, as compared with Rs. 139.32 crore in FY2020. The company has a high operating leverage (fixed rentals and employee costs) and the sharp reduction in revenue exerted significant pressure on its profitability during FY2021 and 9M FY2022. The moderation in cash flows led to weak debt protection metrics with interest coverage ratio of 0.4 times and Total Debt/OPBDITA of 18.8 times in FY2021. ICRA notes Archies' working capital-intensive business with high inventory holding requirements for its stores. This typically translates into high working capital intensity. Further, the moderation in sales in the recent past has resulted into high inventory build-up, despite the management's continuous focus on liquidating older inventories. This, together with delay in debtor recovery, led to a stretched liquidity position, which was managed through monetisation of non-core assets. 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 also 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, in turn, 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 a robust brand presence. Further, ICRA notes that the company enjoys a pan-India distribution network. The ratings draw comfort from the financial support extended by the promoters to Archies, in the past, in the form of unsecured loans. ICRA expects similar support from the promoters through unsecured loans to bridge funding gaps, if any, to continue over the medium term.

The Negative outlook on the [ICRA]BB rating reflects ICRA's opinion that the company's operating performance and financial risk profile will remain under pressure in the near-to-medium term, owing to the challenging business environment that it is facing due to structural shift to the digital medium for greeting and gifting.

Key rating drivers and their description

Credit strengths

Experienced promoters with established track record in organised social expressions 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 have 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.

Established brand name and leadership position in organised social expressions industry in India – Archies' successful operational track record has enabled it to build a robust brand presence in the organised social expressions industry in India. The company enjoys a pan-India distribution network of 136-owned and operated stores (of which 124 are operational) as of December 2021. However, it generates major share of revenues from its stores in the North Indian states, which makes its business critically dependent on consumer spending and macro-economic factors impacting the region.

Credit challenges

Significant decline in revenues and accruals – The company's business has been adversely impacted by the pandemic-related restrictions imposed by the Central and state governments, and structural shift towards digital medium. The OI declined to Rs. 55.29 crore in FY2021 and stood at Rs. 53.91 crore in 9M FY2022, as compared with Rs. 139.32 crore in FY2020. It has high operating leverage (fixed rentals and employee costs) and sharp reduction in revenue exerted significant pressure on its profitability during FY2021 and 9M FY2022.

Weak debt protection metrics – The debt protection metrics remain modest on account of moderate cash flow generation. The interest coverage ratio stood at 0.4 times, and Total Debt/OPBDITA at 18.8 times in FY2021. Further, interest coverage ratio stood at 0.8 times in 9M FY2022. After Ind-AS adjustment, the interest coverage ratio stood at -1.2 times, with Total Debt/OPBDITA at -6.7 times and NCA/TD at 0.5% in FY2021. Further, the Ind-AS adjusted interest coverage ratio stood at -1.3 times in 9M FY2022.

Stretched working capital intensity of operations – The NWC/OI is stretched, as reflected by NWC/OI of 101% in FY2021 and 45% in FY2020. Archies' business is working capital-intensive with high inventory holding requirements for its stores. This typically translates into high working capital intensity. The moderation in sales in the recent past resulted in high inventory build-up, despite the management's continuous focus on liquidating older inventories. This, together with delay in debtor recovery, led to a stretched liquidity position. The working capital requirements are being funded through internal accruals, utilisation of fund-based limits and promoters' contribution.

Exposure to consumer spending trends and threat from alternative communication media – 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. Being sensitive to consumer discretionary spending, ICRA expects a prolonged impact on the demand, with recovery likely to be gradual over several months. Besides, its sales remain vulnerable to changes in consumer preferences. Over the years, consumer preference for traditional social expression industry (greeting cards and gifts) has declined due to the ease of digital modes of expression.

Liquidity position: Stretched

Archies' liquidity position is stretched on account of modest accruals and high working capital intensity of operations. Moreover, given the high operating leverage of the retail business and in the backdrop of declining revenues, fixed cost outflows have impacted the cash flows. The liquidity requirements in the near term are expected to be met through an undrawn line of credit of Rs. 7.18 crore as on January 31, 2022.

Rating sensitivities

Positive factors – Given the continuing pressure on the performance due to structural factors, a rating upgrade in the medium term is unlikely. Nevertheless, a significant improvement in the scale and profitability, along with improvement in liquidity profile, on a sustained basis, could lead to a revision in outlook.

Negative factors – Continued deterioration in profitability or slower-than-expected ramp-up in sales resulting in further moderation in credit metrics may result in downward pressure on the rating. Further, lack of timely financial support from the promoters to bridge funding gaps, if any, would also lead to a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Retail Industry
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, the company was converted into a public limited company and in November 2002, it 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. Its selling and distribution network across India comprises 136 company-owned and operated stores, apart from distributors, franchisees, and retailers. Its manufacturing facility is in Manesar, Haryana.

Key financial indicators

	FY2020	FY2021	9M FY2022
	Audited	Audited	Provisional
Operating Income (Rs. crore)	139.3	55.3	53.9
PAT (Rs. crore)	-7.2	-2.4	-2.2
OPBDIT/OI (%)	11.7%	5.8%	6.2%
PAT/OI (%)	-5.2%	-4.3%	-4.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.7	-
Total Debt/OPBDIT (times)	5.5	18.8	-
Interest Coverage (times)	1.7	0.4	0.8

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

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on January 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019	
					March 31, 2022	December 8, 2020	May 4, 2020	November 22, 2019	July 03, 2019	February 21, 2019	July 04, 2018
1	Fund-based	Long-term	28.8	21.47	[ICRA]BB (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-fund Based	Long-term	1.0	-	[ICRA]BB (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based	-	-	-	28.8	[ICRA]BB (Negative)
NA	Long-term – Non-fund Based	-	-	-	1.0	[ICRA]BB (Negative)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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