

March 13, 2023

Archies Limited: Rating reaffirmed; outlook continues to be Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	28.80	23.10	[ICRA] BB (Negative); Reaffirmed
Long-term – Non-fund based	1.00	1.00	[ICRA] BB (Negative); Reaffirmed
Total	29.80	24.10	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation and continuation of Negative outlook for Archies Limited (Archies) factor in the modest scale of operations and high working capital intensity. Despite a likely increase in revenues by 12%-13% in FY2023 (PY: Rs. 77.2 crore), they are likely to remain lower than the pre-Covid level (Rs. 139.32 crore in FY2020). The revenues continue to be affected by the structural shift in the gifting and greeting industry towards the digital medium. Further, Archies has working capital-intensive nature of business with high inventory holding requirements for its stores. Consequently, the working capital intensity remained high at 68% in FY2022 (PY: 86%). While the growth in revenues, along with cost rationalisation initiatives, resulted in an increase in operating margins to 10.4% in FY2022 and 11.9% in 9M FY2023 (from 5.8% in FY2021), the sustainability of the trend remains to be seen. 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 enjoys a pan-India distribution network of 111 owned and operated stores as of December 2022. However, it generates a 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. The rating draws comfort from the financial support extended by the promoters to Archies, in the past, in the form of unsecured loans, which increased to Rs. 4.2 crore as of September 2022 from Rs. 1.6 crore as of March 2022. 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

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.

Established brand presence in domestic market – Archies' successful operational track record has enabled it to build a strong brand presence in the organised social expressions industry in India. The company enjoys a pan-India distribution network of 111-owned and operated stores as of December 2022. However, it generates a 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

Modest scale of operations despite likely improvement in FY2023 – The company's operating income increased by about 40% in FY2022, though it remained moderate at Rs. 77.2 crore against Rs. 55.3 crore in FY2021. The revenue growth was primarily on account of ease in pandemic-related restrictions and increase in demand from Q3 FY2022 onwards due to pent-up demand, along with festive season demand. In 9M FY2023, it has reported 21% YoY growth in revenues to Rs. 65.4 crore and is expected to report 12%-13% YoY growth for full year FY2023.

High working capital intensity – Archies' business is working capital intensive in nature with high inventory holding requirements for its stores. Moreover, the recent low sales of expensive product range (like perfumes, watches, etc) resulted in high inventory build-up, which translated into a high working capital intensity of 69% in FY2022 (PY: 86%).

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.

Environmental and social risks

PVC, polypropylene and plywood remains the key raw material 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. Further, changing consumer behaviour towards environmentally sustainable products and increasing shift towards online sales and limited presence of company in online channels which could impact the demand of company's products. Overall, its exposure to environment and social risk remains moderate.

Liquidity position: Adequate

Archies' liquidity position is adequate, supported by free cash and bank balance of Rs. 0.7 crore as of December 2022 and utilisation of fund-based limits is around 75% for the trailing twelve months ending December 2022, thus providing a cushion of around Rs. 4.7 crore. The company has Rs. 0.95 crore of debt repayment obligations in FY2024, which is expected to be met from its cash flow from operations. Further, the liquidity is supported by the funds infused by the promoters. In H1 FY2023, the promoters have infused around Rs. 2.6 crore.

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 – Negative pressure could emerge on the rating in case of a significant decline in sales and profitability resulting 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 in 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, 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 111 company-owned and operated stores, apart from distributors, franchisees, and retailers. Its manufacturing facility is in Manesar, Haryana.

Key financial indicators (audited)

Archies Standalone	FY2021	FY2022	9M FY2023
Operating income	55.3	77.2	65.4
PAT	-2.4	-2.6	0.0
OPBDIT/OI	5.8%	10.4%	11.9%
PAT/OI	-4.3%	-3.4%	-0.1%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	-
Total debt*/OPBDIT (times)	18.8	7.5	-
Interest coverage (times)	0.4	1.4	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBDIT; Source: Company annual reports, ICRA Research. *Total debt = external debt + lease liability + promoter loan

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)* as on December 31, 2022	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	
					March 13, 2023	March 31, 2022	December 08, 2020	May 04, 2020	November 22, 2019	July 03, 2019
1	Fund-based	Long Term	23.10	16.42	[ICRA] BB (Negative)	[ICRA] BB (Negative)	[ICRA] BB+ (Stable)	[ICRA] BBB- (Stable)	[ICRA] BBB- (Stable)	[ICRA] BBB (Stable)
2	Non-fund based	Long term	1.00	-	[ICRA] BB (Negative)	[ICRA] BB (Negative)	[ICRA] BB+ (Stable)	[ICRA] BBB- (Stable)	[ICRA] BBB- (Stable)	[ICRA] BBB (Stable)

Complexity level of the rated instrument

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: [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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