July 03, 2019

Archies Limited: Ratings reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund Based	3.00	3.00	[ICRA]BBB (Stable); Reaffirmed
Fund Based/Cash credit	30.00	30.00	[ICRA]BBB (Stable); Reaffirmed
Total	**33.00**	**33.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to derive strength from Archies Limited's (Archies) strong market position and its established brand presence in the social expressions market. The ratings also take into consideration the improvement in the company's operating profitability over the past two years, with operating margin expanding to Rs. 5.64 crore in FY2019 from Rs. 1.95 crore in FY2018. The company had incurred losses in FY2017. This was supported by its operational restructuring and cost-rationalisation initiatives including closure of loss-making stores, foray into profitable products etc. The ratings also take comfort from the financial support extended by the promoters to Archies in FY2018 and FY2019 in the form of unsecured loans, which kept the interest burden low for the company and supported its credit metrics. ICRA expects similar support from the promoters to continue in the form of unsecured loans to bridge funding gaps, if any, over the medium term. The ratings also favourably factor in the healthy capitalisation of the company as reflected by its strong net worth position. The healthy capital base helped the company withstand performance pressures in the recent years.

These strengths are, however, partially offset by the exposure of the company's products to trends in macro-economic conditions, consumer confidence and spending patterns, particularly considering the discretionary nature of the products. While ICRA positively notes the company's foray into paper bag manufacturing, which augmented its revenues and profitability in FY2019, other segments continue to dwindle. Further, given the high proportion of fixed costs and the consistent need for stock replenishment, any revenue fluctuations arising because of weakness in consumer spending will continue to have a bearing on the company's profitability. This was also evident in Q4 FY2019, which was a weak quarter for the company (in revenues terms), having had a direct bearing on the company's profitability. Archies incurred net losses of Rs. 35 lakh in the said period. The ratings also take into account the decline in the store penetration levels as evidenced by the decline in the number of company-owned stores from 240 in March 2014 to 218 in March 2019. Over the same period, the franchisee/non-company managed stores declined to 218 from 282. Though Archies follows the approach of leasing company-owned retail outlets, which results in lower fixed-capital requirements; reduced sales and product expansion resulted in increased working capital requirements for funding inventory. Further, the ratings remain constrained by the high working capital intensity of business on the back of the high inventory requirements. Besides, the company has expansion plans for its paper bag segment. While the expansion is expected to help the company diversify its revenues and product profile, the same may result in a slight moderation in its profitability and capital structure over the medium term.

Further, the ratings take cognisance of the fact that the company's net profitability recovered in FY2019 from losses in the previous two financial years. Nevertheless, it has moved to lower ranges, given the business risks inherent in the social expression industry, characterised by declining growth rates and persistently strong competition. Despite its established position in the social expressions industry, Archies continues to face challenges like changes in the buying pattern of consumers and their increasing preference for e-commerce channels. As a result, its ability to sustain its position will remain a key rating sensitivity. The company's ability to minimise non-moving inventory on a consistent basis to control the working capital will also be monitored.

Outlook: Stable

ICRA expects the company's operating profitability to improve, albeit lower ranges, following the various cost-rationalisation initiatives undertaken by it. Moreover, the company's venture into paper bags manufacturing is likely to support its medium-term revenue growth and visibility. The outlook may be revised to Positive if the company is able to turn around its operations through better cost management, along with substantial improvement in revenues, profitability and coverage indicators. The outlook may be revised to Negative if the cash accruals are lower than expected or any adverse developments impact the financial risk profile.

Key rating drivers

Credit strengths

Three-decade-long experience of promoters in the industry: The promoters have more than three decades of experience in the social expressions industry. Archies is a professionally managed concern with the brothers Mr. Anil Moolchandani and Mr. Jagdish Moolchandani holding key positions.

Established brand name and leadership position with significant market share in India's organised social expressions industry: Archies has an established brand presence in the organised social expressions industry in India. While the company enjoys a pan-India distribution network of 218 owned stores and franchisees each across India as on March 31, 2019, it generates most of the revenues from its stores in the North Indian states. Thus, any weakening of the region's economy is likely to have an adverse impact on Archies' revenues and margins.

Credit challenges

Modest financial risk profile: Archies' scale of operations is moderate with revenues of Rs. 161.36 crore in FY2019. While ICRA notes the revival in the company's revenues and operating profitability in FY2019, any weakening of the revenues will have a direct bearing on the company's profits because of the high fixed recurring expenses involved. With modest profitability and high debt levels, the coverage indicators remained moderate in FY2019. In addition, the company will be incurring a debt-funded capex in the near term for capacity expansion, which is expected to keep the improvement in profitability and credit metrics minimal.

High working capital intensity: Archies' business is working capital intensive with high inventory holding requirements for its existing as well as new stores. Moreover, the slowdown in sales has resulted in inventory build-up, translating into a high working capital intensity (as reflected by NWC/OI) at 35% in FY2019. The high working capital is required to support inventory requirements at the existing stores with risk of obsolescence and discounted sales realisations, thereby impacting profit margins.

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 in light of the discretionary nature of its products. Besides, its sales remain vulnerable to the changes in consumers' 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.

Decline in franchisee stores impacts penetration levels: The total number of company-owned stores declined to 218 in March 2019 from 240 in March 2014. Over the same period, the franchisee/non-company managed stores declined to 218 from 282. This in turn impacted the penetration levels. To expand its network, the company may have to open its own stores, which may increase the inventory costs and thereby debt levels.

Liquidity position

The liquidity position remained adequate with moderate working capital limit utilisation of ~62% in FY2019. In addition, the promoters continue to support the company by infusing unsecured loans to bridge funding gaps, if any. ICRA expects similar support from the promoters to continue in the form of unsecured loans. Going forward, the liquidity profile is likely to remain supported by unutilised sanctioned bank lines and healthy net worth position, despite sizeable interest outgo and increased debt repayment obligations towards the capex in pipeline.

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. 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. The company's selling and distribution network across India comprises 218 company-owned stores, apart from distributors, franchisee and retailers. It has tie-ups with the US-based Hallmark Inc., and Smiley World, UK Greetings, for sourcing designs and artwork. Archies has also tied-up with social cause organisations such as Helpage and CRY. The manufacturing facility of the company is in Manesar, Haryana.

Key financial indicators (audited)

	FY2018	**FY2019**
Operating Income (Rs. crore)	157.82	161.36
PAT (Rs. crore)	-2.38	0.73
OPBDIT/OI (%)	1.23%	3.50%
RoCE (%)	-0.05%	2.51%
Total Debt/TNW (times)	0.14	0.14
Total Debt/OPBDITA (times)	8.50	2.84
Interest Coverage (times)	0.69	2.09

Source: Company data; ICRA research; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work - in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

SNo	Name of Instrument	Type	Current Rating (FY2020)		Month-year & Rating	Chronology of Rating History for the Past 3 years Month- year and Rating in					
			Rated amount (Rs. crore)	Amount outstanding		FY2019		FY2018		FY2017	
					July 2019	February 2019	July 2018	February 2018	August 2017	March 2017	October 2016
1	Fund-based Limits	Long-term	30.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)
2	Non-fund Based Limits	Long-term	3.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)
3	Commercial Paper	Short-term	15.00	-	-	-	-	[ICRA]A3+; withdrawn	[ICRA]A3+	[ICRA]A3+	[ICRA]A2

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	30.00	[ICRA] BBB (Stable)
-	Non-fund Based	-	-	-	3.00	[ICRA] BBB (Stable)

Source: Archies

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.

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