May 04, 2020

Archies Limited: Rating reaffirmed; outlook revised to Negative

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- (Negative) reaffirmed; outlook revised from Stable
Fund Based/Cash credit	30.00	30.00	[ICRA]BBB- (Negative); reaffirmed; outlook revised from Stable
Total	**33.00**	**33.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook on the ratings for bank facilities of Archies Limited (Archies) to Negative is based on ICRA's belief that the company's operating performance and financial risk profile will see heightened pressure in the near to medium term, owing to the impact of the Covid-19 pandemic. Given the uncertainty on the duration of the lockdown, ICRA expects a prolonged impact on demand, with recovery likely to be gradual, owing to the discretionary nature of the company's products. As a result, ICRA expects a decline in Archies' revenues, profit margins and in turn, coverage metrics in the medium term. Given the current lockdown, the company is in the process of invoking force majeure clause and is in discussion with its landlords to grant waivers/deferrals on the rentals to reduce the immediate rental obligations. Considering the fixed nature of costs, the company's profitability is under pressure in the current scenario. The pressure on its credit profile is accentuated by the increased working capital requirements following higher inventory and receivable levels. These factors are likely to result in a moderation in the company's liquidity cushion. Hence, timely infusion of funds by the promoters is crucial to manage liquidity requirements in the near term. While the company has honoured its debt obligations pertaining to March 2020, it has requested for a moratorium on interest payments for April and May 2020 from its lenders as a part of the Covid-19 regulatory package announced by the Reserve Bank of India (RBI) on March 27, 2020. The formal approval in this regard is awaited from the lenders.

The ratings, however, continue to favourably factor in Archies' experienced promoters and its long track record of operations in the organised social expressions market in India. The ratings also take comfort from the financial support extended by the promoters to Archies in the past in the form of unsecured loans, which kept its interest burden low. ICRA expects similar support from the promoters in the form of unsecured loans to bridge funding gaps, if any, to continue over the medium term.

Key rating drivers and their description

Credit strengths

Three-decade-long experience of promoters in industry: The promoters have more than three decades of experience in the social expressions industry. 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 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. The company enjoys a pan-India distribution network of 213-owned stores as on December 31, 2019. However, it generates most of the revenues from its stores in the North Indian states, which makes its profitability critically dependent on consumer spending in these states.

Credit challenges

Expected moderation in financial risk profile amid a tough operating environment: Being sensitive to consumer discretionary spending, the company's performance is expected to be adversely affected by the Covid-19 pandemic in the near term. Subsequently, ICRA expects significant pressure on the company's footfalls over the next few months. Together with lower scale, high fixed costs and discounted sales to clear inventory backlog are expected to result in a decline in the profit margins.

Working capital intensity remains high: Archies' business is working capital intensive with high inventory holding requirements for its stores. Moreover, the slowdown in sales and the current lockdown have resulted in inventory build-up, translating into high working capital intensity. This, together with delay in debtor recovery, is likely to result in moderation in the company's liquidity cushion in the medium term.

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 and likely consumer reluctance to step out, which may keep footfalls subdued in its retail stores. 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.

Decline in stores impacts penetration levels: The total number of company-owned stores has declined to 213 in December 2019 from 240 in March 2014. Over the same period, the franchisee/non-company managed stores have also seen a consistent decline. This in turn has impacted the penetration levels. To expand its network, the company may have to open its own stores, which may increase the inventory costs and in turn, debt levels.

Liquidity position: Stretched

For Archies, given the significant fixed obligations (rentals), its profitability is directly linked to its revenues. With significant pressure on the company's revenue generation capability, its liquidity position is expected to be stretched and would depend primarily on deferrals/waivers on rentals received in the coming months. However, continued support from the promoters in the form of unsecured loans to bridge funding gaps would support the liquidity position to some extent, going forward. An improvement in cash flows through turnaround of operations and better profitability remains critical for improvement in the liquidity profile.

Rating sensitivities

Positive triggers: Given the Negative outlook on the ratings, a ratings upgrade in the medium term is unlikely. However, full-fledged revival of operations with ramp up in scale and sustained improvement in profitability, along with improvement in liquidity profile, could lead to revision of outlook to Stable.

Negative triggers: Continued deterioration in earnings on account of the Covid-19 pandemic or slower-than-expected ramp up in sales resulting in further moderation in credit metrics may result in downward pressure on the ratings. Further, any delay in financial support from the promoters, would also be a negative trigger.

Analytical approach

	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Retail Industry](#) [Rating Outlook and Rating Watch](#)
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 213 company-owned stores, apart from distributors, franchisees and retailers. It has tie-ups with the US-based Hallmark Inc., for sourcing designs and artwork. Archies has also tied-up with social cause organisations such as Helpage India 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 Outside Liabilities/Tangible Net Worth (times)	0.41	0.43
Total Debt/OPBDITA (times)	8.50	2.84
Interest Coverage (times)	0.69	2.09
DSCR	1.04	1.98

Source: Company data; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

SNo	Name of Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 years					
		Type	Rated amount	Amount outstanding	Month-year & Rating	Month- year and Rating in					
						FY2020		FY2019		FY2018	
			(Rs. crore)		May 4, 2020	November 22, 2019	July 03, 2019	February 21, 2019	July 04, 2018	February 8, 2018	August 21, 2017
1	Fund-based Limits	Long-term	30.00	-	[ICRA]BBB - (Negative)	[ICRA]BBB - (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)
2	Non-fund Based Limits	Long-term	3.00	-	[ICRA]BBB - (Negative)	[ICRA]BBB - (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)
3	Commercial Paper	Short-term	15.00	-	-			-	-	[ICRA]A3+; withdrawn	[ICRA]A3+

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- (Negative)
-	Non-fund Based	-	-	-	3.00	[ICRA] BBB- (Negative)

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.

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.

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