

December 08, 2020

Archies Limited: Ratings revised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term/Non-fund Based	3.00	3.00	[ICRA]BB+ (Stable); revised from [ICRA]BBB- (Negative)
Long-term/Fund Based/Cash credit	30.00	30.00	[ICRA]BB+ (Stable); revised from [ICRA]BBB- (Negative)
Total	33.00	33.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in Archies Limited's (Archies) shrinking scale of operations and continued pressures on profitability on account of the nationwide lockdown following the rapid spread of Covid-19, and limited sales in the recent months in areas where its stores have resumed operations. Furthermore, challenges of weak macro-economic environment translating to lower discretionary spends and potential change in consumer behaviour towards visiting public places due to the ongoing pandemic are likely to maintain pressure on its operating performance going forward. Thus, Archies' revenues are expected to register a sharp YoY decline FY2021, while its margins are likely to contract further due to weak absorption of fixed costs. To minimise the impact on profitability, the company is mulling options including closure of loss-making stores, invocation of force majeure clauses for lease rental payments during the period of lockdown, rental negotiations with landlords for the rest of the year, employee restructuring and rationalisation of other discretionary spends, etc. Also, while the retail sales are expected to be low, the revenues are likely to be supported by the company's foray into the export market for its paper bags business. However, given the expected weakness in the overall demand in the near term, the improvement is likely to be gradual. The pressure on its credit profile is also accentuated by the increased working capital requirements following heightened 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 its liquidity requirements in the near term. 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.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that the company will benefit from its established brand presence in the social expressions market and continued funding support from the promoters to bridge funding gaps, if any. However, turnaround in operating performance will remain crucial to ramp-up revenues during the vital festival season in H2 FY2021.

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 169-owned stores (of which 142 are operational) as on September 30, 2020. 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 on account of the demand slowdown because of the pandemic – The company has a high operating leverage (fixed rentals and employee costs) and any sharp reduction in revenue results in significant pressure on its profitability. The nationwide lockdown imposed to contain the Covid-19 pandemic and limited sales traction across markets, where its stores have opened, resulted in a weak performance as reflected by operating income (OI) of Rs. 14.3 crore in H1 FY2021 compared to Rs. 67.2 crore in the corresponding year-ago period. Furthermore, challenges of a weak macro-economic environment translating to lower discretionary spends and potential change in consumer behaviour towards visiting public places due to the ongoing pandemic is expected to maintain pressure on the company's operating performance. Thus, revenues are expected to register a sharp YoY decline FY2021, while the margins are likely to contract further due to weak absorption of fixed costs.

High working capital intensity – Archies' business is working capital intensive with high inventory holding requirements for its stores. This typically translates into high working capital intensity. ICRA notes that a slowdown in sales in the past few quarters has resulted in consistently high inventory levels, despite the management's continued focus on liquidating older inventories. This, together with delay in debtor recovery, has resulted in moderation in the company's liquidity cushion.

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 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 169 in September 2020 (of which 142 are operational) 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

ICRA expects the liquidity position of the company to remain **stretched** on account of low cash flow from operations. Moreover, given the high operating leverage of the retail business and in the backdrop of sharp revenue decline, fixed cost rationalisation becomes imperative. 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. In addition, undrawn line of credit, subject to available drawing power, will provide some comfort to its liquidity position. 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 current business scenario, 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 an upward rating revision.

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

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 169 company-owned stores, apart from distributors, franchisees, and retailers. The manufacturing facility of the company is in Manesar, Haryana.

Key financial indicators

	FY2019	FY2020	H1FY2021
Operating Income (Rs. crore)	161.4	139.3	14.3
PAT (Rs. crore)	0.7	-7.2	-2.5
OPBDIT/OI (%)	3.5%	11.7%	-14.8%
PAT/OI (%)	0.5%	-5.2%	-17.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	1.1	1.0
Total Debt/OPBDITA (times)	2.8	5.5	-19.8
Interest Coverage (times)	2.1	1.7	-0.5

Source: Financial statements of Archies; 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	Type	Current Rating (FY2021)				Chronology of Rating History for the Past 3 years					
			Rated amount	Amount outstanding	Month-year & Rating		Month- year and Rating in					
			(Rs. crore)		December 8, 2020	May 4, 2020	FY2020		FY2019		FY2018	
							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]BB+ (Stable)	[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]BB+ (Stable)	[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+

*Amount in Rs. crore

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 [click here](http://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] BB+ (Stable)
-	Non-fund Based	-	-	-	3.00	[ICRA] BB+ (Stable)

Source: Archies

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

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