May 26, 2023

Virgo Laminates Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Non-fund based limits	11.50	11.50	[ICRA]A1; reaffirmed
Long-term Fund-based limits/Cash credit	125.00	125.00	[ICRA] A+(Stable); reaffirmed
Long-term Fund-based limits/ Term loan	42.80	42.80	[ICRA] A+(Stable); reaffirmed
Long-term/Short-term Unallocated	0.20	0.20	[ICRA]A+(Stable)/ [ICRA]A1; reaffirmed
Total	**179.50**	**179.50**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Virgo Laminates Limited (VLL) and Virgo Industries (VI) (referred to as the Group or the Virgo Group), given the strong operational, financial and managerial linkages.

The rating reaffirmation factors in the Group's strong financial risk profile, driven by the expected improvement in revenues, sustenance of operating margins, along with comfortable leverage and debt coverage metrics. The Virgo Group reported a compounded annual growth rate (CAGR) of ~22% during FY2019-FY2023, aided by increased realisations and sales volumes. It is likely to report 15% revenue growth in FY2024, primarily due to the ramp-up in sales volume in the domestic and export markets. The operating margins are expected to sustain in the range of 18-19% (18.7% in FY2023) in FY2024. The Group's outstanding debt declined to Rs. 204 crore as on March 31, 2023 (PY: Rs. 306 crore), supported by long-term debt repayments and decline in working capital borrowings, led by an increase in cash accruals. With limited debt-funded capex plans, the leverage is likely to be comfortable with TD/OPBIDTA at 0.4-0.5 times as of March 2024 and DSCR at 9-10 times in FY2024. The ratings continue to take into account the extensive experience of the promoters, and the brand strength of Virgo in the laminates business, given it is one of the leading players in India with strong market position in terms of sales volumes, backed by expanding capacity and nationwide distribution network.

The ratings, however, are constrained by the Group's high working capital intensity, given the long credit period extended to distributors to increase its market share as well as high inventory requirements to maintain availability of stocks at multiple locations. Further, the business remains exposed to intense competition from large players as well as small unorganised players, which limits the pricing flexibility. The ratings consider the moderate capacity utilisation of the Gujarat plant at 32% in FY2023, despite commencing operations in FY2021. Hence, its ability to ramp-up the utilisation of the Gujarat plant and improving the overall capacity utilisation remains a key monitorable. The Group's margins are vulnerable to volatility in raw material prices and any adverse foreign exchange rate fluctuations. ICRA notes the capital withdrawal risk for VI, as it is a partnership firm.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Virgo Group will continue to benefit from its established brand and distribution network, and its strong financial risk profile.

Key rating drivers and their description

Credit strengths

Healthy growth in scale of operations; operating margins likely to sustain in the range of 18-19% in FY2024 – The Virgo Group reported a CAGR of ~22% during FY2019-FY2023, driven by increased realisations and sales volumes. It is likely to report 15%

revenue growth in FY2024, primarily due to the ramp-up in sales volume in the domestic and export markets. The operating margins are expected to sustain in the range of 18-19% (18.7% in FY2023) in FY2024.

Comfortable leverage and debt coverage metrics – The Group's debt declined to Rs. 204 crore as on March 31, 2023 (PY: Rs. 306 crore), supported by long-term debt repayments and decline in working capital borrowings, led by an increase in cash accruals. Out of the total debt of Rs. 204 crore as of March 2023, about 55% is unsecured loan from promoters, which is subordinated to the bank debt and does not have any scheduled maturity. The remaining debt is primarily in the form of working capital borrowings. With limited debt-funded capex plans, the leverage is likely to be comfortable with TD/OPBIDTA at 0.4-0.5 times as of March 2024 and DSCR at 9-10 times in FY2024.

Established track record of promoters in laminates industry with healthy distribution network – The Virgo Group is one of the leading players in India with strong market position in terms of sales volumes, backed by expanding capacity and nationwide distribution network. Its annual sales volume stood at ~21.4 million sheets in FY2023 and grew by 6% on a YoY basis.

Credit challenges

Moderate utilisation of Gujarat plant, where 69% of expansion was undertaken in FY2022 – The Gujarat plant recorded moderate capacity utilisation in FY2023 at 32%, despite commencing operations in FY2021. Hence, the company's ability to ramp-up the utilisation of the Gujarat plant thereby improving the overall capacity utilisation remains a key monitorable.

High receivables and inventory holding leads to high working capital intensity – The Group's operations are working capital intensive in nature due to the large credit period being extended to customers to capture higher market share. The inventory holding period remained high at around 120 days owing to a large number of product variants and the associated raw material stocking. Also, as a part of the Group's penetration strategy for capturing the market share, the company has been historically extending high credit period to its customers. Despite an improvement in the receivable cycle over the last three to four years to ~75 days as of March 2023 from 120 days as of March 2020, it still remains high, thereby resulting in a working capital intensity of ~44% in FY2023.

Forex and raw material price fluctuation risk – The Group's margins are vulnerable to volatility in raw material prices and any adverse foreign exchange rate fluctuations. The Group remains exposed to forex risks in absence of a formal forex hedging mechanism. Further, the prices of many key raw materials such as melamine, phenol, etc, are volatile, which could have a bearing on the production cost. Its margins moderated to 18.7% in FY2023 from 21.0% in FY2021 due to volatile raw material prices. Given the competitive market on account of a large number of organised and unorganised players in the laminates industry, it has limited ability to pass on the price hikes.

Liquidity position: Adequate

The Group's cash flow from operations are expected to be adequate to meet the regular capex and debt servicing obligations. Its liquidity is supported by cushion in available fund-based working capital bank facilities with average utilisation of ~60% during the 12 months period ending April 2023.

Rating sensitivities

Positive factors – Significant improvement in scale of operations through business diversification while maintaining profitability and improvement in the working capital intensity could trigger an upgrade.

Negative factors – The ratings may be downgraded in case of sustained pressure on operating profitability or deterioration in the working capital intensity, which impacts its credit profile. Further, any major debt-funded capex or other factors, which results in Total Debt/OPBIDTA increasing beyond 1.8 times, on a sustained basis, could also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Virgo Laminates Limited and Virgo Industries which are enlisted in Annexure II.

About the company

Virgo Laminates Limited (formerly known as Katyani Chemtech (India) Ltd) started operations in 2000 with manufacturing facilities in Gujarat, Andhra Pradesh, Punjab, Rajasthan and Haryana. It manufactures high pressure laminates, which are sold under the brand name Virgo. The company has an installed production capacity of 33.2 million sheets per annum.

The company is a part of the Virgo Group, which was founded by Mr. R.P. Arora in 1975, by setting up a rice mill in the Moga district of Punjab. Later, it shifted to manufacturing and at present has a diversified presence in decorative laminates, plywoods, boards, and aluminium sheets and coils. The Group is one of the largest players in the domestic laminates market with a total annual capacity of around 37.4 million sheets. It is currently managed by Mr. R.P. Arora's sons, namely Mr. Bishamber Dass Arora, Mr. Surender Pal Arora, Mr. Tilak Raj Arora and Mr. Praveen Kumar Arora.

The other Group entity involved in manufacturing laminates is Virgo Industries (VI) with an annual capacity of around 4.2 million sheets. Apart from this entity, the Group has Virgo Plywoods Limited (VPL), which is into plywood manufacturing and Virgo Aluminium Limited (VAL) that manufactures aluminium sheets and coils.

Key financial indicators (audited)

VLL Consolidated	FY2021	FY2022
Operating income	760.1	1,103.5
PAT	102.4	116.2
OPBDIT/OI	21.0%	16.5%
PAT/OI	13.4%	10.5%
Total outside liabilities/Tangible net worth (times)	1.2	1.3
Total debt/OPBDIT (times)	1.6	1.7
Interest coverage (times)	8.5	7.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company data, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021
					May 26, 2023	-	Feb 02, 2022	Nov 11, 2022	Apr 09, 2022	-
1	**Fund-based - Cash credit**	Long term	125.00	-	**[ICRA]A+ (Stable)**	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-
2	**Fund-based - Term loan**	Long term	42.80	16.40	**[ICRA]A+ (Stable)**	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	-
3	**Non-fund Based**	Short term	11.50	-	**[ICRA]A1**	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-
4	**Long-term/ Short-term Unallocated**	Long term and short term	0.20	-	**[ICRA]A+ (Stable) / [ICRA]A1**	-	**[ICRA]A+ (Stable) / [ICRA]A1**			-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term - Non-fund based limits	Very Simple
Long-term - Fund-based limits - Cash credit	Simple
Long-term - Fund-based limits - Term loan	Simple
Long-term – Short-term – Unallocated	NA

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	Fund-based – Cash credit	NA	NA	NA	125.00	[ICRA]A+(Stable)
NA	Fund-based – Term loan	March 2019	NA	April 2024	42.80	[ICRA]A+(Stable)
NA	Non-fund based	NA	NA	NA	11.50	[ICRA]A1
NA	Long-term/ Short-term – Unallocated	NA	NA	NA	0.20	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	VLL Ownership	Consolidation Approach
Virgo Laminates Limited	NA	Full Consolidation
Virgo Industries	100.0%	Full Consolidation

Source: Company, ICRA Research

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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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