

August 30, 2024

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	110.00	[ICRA] A+ (Stable); reaffirmed
Long-term/Fund-based limits/ Term loan	42.80	7.47	[ICRA] A+ (Stable); reaffirmed
Long-term/Short-term Unallocated	0.20	50.53	[ICRA]A+(Stable)/ [ICRA]A1; reaffirmed
Total	179.50	179.50	

*Instrument details are provided in Annexure-I

Rationale

ICRA has considered the consolidated financials of Virgo Laminates Limited (VLL) and its group company, 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 its healthy operating profit margins and comfortable leverage and debt coverage metrics. The Group's operating income (OI) in FY2024 (as per provisional financial statements) stood at Rs. 1,218 crore, which is largely similar to the previous year, majorly due to decline in installed capacity, while the operating profit margins (OPM) continued to remain healthy at 17.10% in FY2024 (PY: 15.6%). ICRA expects the Group's revenues to grow by 6-7% in FY2025, mainly aided by the expected improvement in capacity utilisation levels and the operating margins are projected to sustain at 16-17%. The Group's outstanding debt declined to Rs. 29.70 crore as of March 2024 from Rs. 223.29 crore as of March 2023, owing to lower dependence on working capital borrowings and repayment of unsecured loans supported by the healthy cash accruals. VLL is in the process of setting up a new plant of 9.6 million (mn) sheets capacity in Gujarat with a total capex outlay of Rs. 60-70 crore, which is likely to be funded by a debt to equity mix of 60:40 and the plant is expected to be ready by December 2025. Despite this debt-funded capex, ICRA estimates the company's leverage and coverage indicators to remain comfortable with Total Debt/OPBDITA of below 0.5 times and DSCR of above 10 times during FY2025-FY2026. The ratings continue to consider 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 the capacity expansion and nationwide distribution network.

ICRA notes that the Group's installed capacity reduced to 26.6 mn sheets in FY2024 from 37.4 mn sheet in FY2023, following the proposed demerger of VLL's Ahmedabad plant of 10.8 mn sheet capacity into a separate entity, Glamina Overseas Private Limited (GOPL). GOPL is owned by members of one of the promoter families and has been created for housing the Ahmedabad plant as a part of family settlement arrangement in order to provide them exit from VLL. The demerger is still in process and currently the Ahmedabad plant is being operated by GOPL on a lease rental basis since June 2023.

The ratings, however, are constrained by the Group's high working capital intensity with NWC/OI of 40% in FY2024 (38% in FY2023), despite the significant reduction in the inventory levels, given the long credit period extended to distributors to increase its market share. Further, the Group's profitability is vulnerable to volatility in raw material prices and foreign exchange rates. Further, the business remains exposed to intense competition from large players as well as small unorganised players, which limits pricing flexibility and realisations relative to peers. ICRA also notes the risk related to capital withdrawal for VI because of its constitution as 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 will maintain healthy operating profitability and comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Healthy operating profit margins, expected to sustain at 16-17% levels – The Group's OI in FY2024 (as per provisional financial statements) stood at Rs. 1,218 crore, which is largely similar to the previous year, majorly due to decline in installed capacity, while the operating profit margins (OPM) continued to remain healthy at 17.10% in FY2024 (PY: 15.6%). ICRA expects the Group's revenues to grow by 6-7% in FY2025, mainly driven by the expected improvement in capacity utilisation levels and the operating margins are projected to sustain at 16-17%.

Comfortable leverage and debt coverage metrics – The Group's outstanding debt declined to Rs. 29.70 crore as of March 2024 from Rs. 223.29 crore as of March 2023, due to lower dependence on working capital borrowings and repayment of unsecured loans, supported by the healthy cash accruals. VLL is in the process of setting up a new plant of 9.6 mn sheets capacity in Gujarat with total capex outlay of Rs. 60-70 crore, which is likely to be funded by a debt to equity mix of 60:40 and the plant is expected to be ready by December 2025. Despite this debt-funded capex, ICRA estimates the company's leverage and coverage indicators to remain comfortable with Total Debt/OPBDITA of below 0.5 times and DSCR of above 10 times during FY2025-FY2026 period, respectively.

Established track record of promoters in laminates industry with healthy distribution network – ICRA draws comfort from the VLL's leading market position in India in terms of sales volumes, backed by its capacity expansion and a national distribution network.

Credit challenges

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 Group's inventory requirements have historically remained high on account of a large number of product variants and the associated raw material stocking. Nonetheless, it has been able to bring down its inventory holding period to 71 days as of March 2024 from 108 days as of March 2023 by reducing its reliance on imports for design paper by sourcing it domestically on a need basis from a Group company, and by exercising better control over inventory by implementation of SAP systems. Despite an improvement in the receivable cycle over the last three to four years, the debtors remain high at 92 days as of March 2024, thereby resulting in a high working capital intensity of ~40% in FY2024 (38% in FY2023).

Vulnerability of profitability to fluctuations in raw material prices and foreign exchange rates – The Group's profitability remains vulnerable to volatility in prices of key raw materials such as paper and chemicals viz., melamine, methanol and phenol, which are crude oil/gas derivatives and fluctuations in exchange rates on import of raw materials and export of its products.

Exposure to intense competition – The Group faces stiff competition from a large number of organised and unorganised players in the laminates industry, which limits its pricing flexibility and ability to pass on the price hikes on to the customers.

Liquidity position: Adequate

The Group's liquidity position is adequate. As of March 2024, the Group had free cash and liquid balances of Rs. 9.3 crore. It has principal repayment obligation of Rs. 5.9 crore for its term loans, which along with the interest obligations, can be adequately met through its cash flow from operations. The liquidity is further supported by the cushion in available fund-based working capital bank facilities with average utilisation of ~20% during June 2023 – May 2024. The Group has an ongoing capex of Rs. 60-70 crore (to be completed by December 2025) towards setting up of a new plant in Gujarat, which is likely to be

funded by debt to equity mix of 60:40. The company is yet to tie-up for the debt, while the equity requirement will be met through the internal accruals.

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 a rating 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/OPBDITA 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 its group company, Virgo Industries given their strong operational, financial and managerial linkages.

About the company

Virgo Laminates Limited (formerly known as Katyani Chemtech (India) Ltd) started operations in 2000 with its manufacturing facilities located in 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 22.4 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 26.6 million sheets. It is currently managed by Mr. R.P. Arora's sons, namely 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 in plywood manufacturing and Virgo Aluminium Limited (VAL), which manufactures aluminium sheets and coils.

Key financial indicators (audited)

Consolidated	FY2023	FY2024*
Operating income	1,230.9	1,217.6
PAT	130.2	195.06 (PBT)
OPBDIT/OI	15.6%	17.1%
PAT/OI	10.6%	16.0% (PBT/OI)
Total outside liabilities/Tangible net worth (times)	0.7	0.1
Total debt/OPBDIT (times)	1.2	0.1
Interest coverage (times)	8.4	22.6

Source: Company, ICRA Research; * FY2024 are provisional in nature and are without tax; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022			
			August 30, 2024	May 26, 2023	-	Feb 02, 2022	Nov 11, 2021	Apr 09, 2021	
1 Fund-based - Cash credit	Long term	110.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	
2 Fund-based - Term loan	Long term	7.47	[ICRA]A+ (Stable)	[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	[ICRA]A1	
4 Long-term/Short-term Unallocated	Long term and short term	50.53	[ICRA]A+ (Stable) / [ICRA]A1	[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	110.00	[ICRA]A+(Stable)
NA	Fund-based – Term loan	March 2019	NA	March 2026	7.47	[ICRA]A+(Stable)
NA	Non-fund based	NA	NA	NA	11.50	[ICRA]A1
NA	Long-term/ Short-term – Unallocated	NA	NA	NA	50.53	[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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Branches



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