September 25, 2023

Virgo Aluminum Limited: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2; removed from Issuer Non Cooperating Category; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term- Fund Based/ Non-Fund Based-Cash Credit	74.00	150.00	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BB+(Stable) ISSUER NOT COOPERATING/[ICRA]A4+ ISSUER NOT COOPERATING and removed from Issuer Not Cooperating Category; rated amount enhanced
Short-term-Non-fund based-Interchangeable- Others	-	(26.00)^	[ICRA]A2; assigned
Long Term-Fund Based - Term Loan	40.70	-	-
Short-term-non-fund based-Bank Guarantee	3.30	-	-
Total	**118.00**	**150.00**	

**Instrument details are provided in Annexure-I*
^Interchangeable with CC limit of HDFC Bank

Rationale

ICRA has upgraded the ratings of Virgo Aluminum Limited (VAL) and removed the same from the 'Issuer Not Cooperating' category based on adequate information received from the client for carrying out a detailed credit assessment.

The rating action considers VAL's established promoter group and experience in the aluminum extrusion industry, widespread distribution network and its well-established relationships with customers. ICRA also notes VAL's revenue jumped 53% to Rs. 616 crore in FY2023 (provisional number) with increase in sales volume following commencement of the Ahmedabad plant and stable operations at the Ambala plant. However, the operating margin of the company declined to 6% in FY2023 (provisional number) from 12% in the previous year owing to sub-optimal utilisation of the Ahmedabad unit, which resulted in higher operational costs and low contribution with decline in aluminum prices. The debt coverage indicators also remained moderate with an interest coverage of ~3 times in FY2023. However, with stabilisation of the Ahmedabad plant, the profitability and debt coverage indicators are expected to improve in the current fiscal.

The ratings continue to be constrained by its risks related to fluctuation in raw material prices and foreign currency rates, as well as competition from other players in the industry. Further, the operations are working capital intensive, resulting in higher working capital requirement. ICRA draws comfort from the company's shared brand name, promoters and marketing channels, apart from its financial flexibility.

A Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that VAL will benefit from increased production capacities, resulting in improved scale and profitability.

Key rating drivers and their description

Credit strengths

Established presence in the aluminum extrusion industry – The Virgo Group was established by Mr. R. P. Arora, in 1975, by setting up a rice mill in the Moga district of Punjab. The Group gradually moved into manufacturing and at present has a diversified presence in decorative laminates, aluminum sheets and coils, plywoods and boards.

Wide distribution network – The promoter's long experience has enabled the company to establish healthy relationships with various reputed customers and suppliers. It also derives comfort from the strong position of the Virgo brand.

Earnings expected to improve in FY2024 owing to ramp-up of operations in the new plant – The scale and revenue are expected to improve in the near-to-medium term owing to stabilisation of the Ahmedabad plant and subsequent ramp-up of operations. The new plant in Ahmedabad will also help the company reduce its freight and transportation cost for the export market. Moreover, with improved profitability, coverage indicators are expected to improve from the moderate level of FY2023.

Credit challenges

Decline in operating margins in FY2023, however, improvement expected in FY2024 – The company's operating margins declined in FY2023 to ~6% from ~12% in FY2022 owing to sub-optimal utilisation of the Ahmedabad plant, which resulted in higher operational costs. However, with ramp-up of operations in the current fiscal, the operating margins are also expected to improve.

Working capital intensive operations amid stiff competition in business – VAL is involved in manufacturing aluminum sheets and coils. It faces stiff competition from both organised as well as unorganised players. Further, the operations are working capital intensive and require higher working capital.

Exposure to raw material price volatility – As most of the raw materials used by the company are in the form of imported aluminum scrap, prices of which are directly driven by aluminum prices on the London Metal Exchange (LME), VAL is exposed to pricing risks. Further, any adverse variation on the LME prices may directly impact the company's profitability. Thus, in the absence of any hedging mechanism and limited exports compared to import volumes, it is exposed to raw material volatility risk.

Liquidity position: Adequate

VAL's liquidity position is adequate with healthy cash flow from operations relative to its debt servicing obligations. However, the average working capital utilisation, as a percentage of the sanctioned limits, remains moderately high. Nonetheless, the company has been able to enhance its working capital limits on a timely basis, thus supporting liquidity. Further, the company's liquidity is supported by regular infusion of unsecured loans from promoters.

Rating sensitivities

Positive factors – A significant increase in the scale of operations and profitability, leading to an improvement in debt protection metrics and healthy liquidity position on a sustained basis, could lead to ratings upgrade. Additionally, RoCE above 18%, on a sustained basis, might also trigger a rating upgrade.

Negative factors – The ratings could witness a downward revision in case of any adverse impact on the revenue/profitability of the company, leading to a deterioration in debt protection metrics. Interest coverage ratio below 3.5 times, on a sustained basis, can lead to rating downgrade. Further, a deterioration in the working capital intensity, resulting in weakening of the liquidity profile, might trigger ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1989 as Alpha Reprographics Limited, VAL got its present name in 2009. Its plant commissioned in April 2011 and became fully operational in October 2011. The plant manufactures aluminum sheets and coils with an installed capacity of 36,000 MTPA (enhanced from 18,000 MTPA) of sizes varying from 0.1 mm to 4 mm. The products manufactured by the company find usages in various end-user industries such as power, automobiles, consumer durables, furniture and architecture application etc. Initially the company used to procure aluminum ingots from Hindalco, NALCO etc., but subsequently, it has started importing aluminum scrap.

In FY2022 and FY2023, the company added 18,000 MT capacity to cater to the export market. This apart, the new plant will also cater to the western and southern India, where the Group already has its distribution network.

Key financial indicators

Virgo Aluminum Limited	FY2022	FY2023*
Operating income	403.3	626.7
PAT	22.1	1.2
OPBDIT/OI	12.0%	5.9%
PAT/OI	5.4%	0.2%
Total outside liabilities/Tangible net worth (times)	1.7	1.9
Total debt/OPBDIT (times)	3.2	5.2
Interest coverage (times)	7.1	3.0

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

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 date (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
					25-Sep-2023	07-Aug-2023	28-Apr-2023	-	13-Jan-2022	30-Dec-2021	01-Sep-2020	11-Jun-2020
1	Fund Based	Long Term	-	-	-	-	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund Based /Non-Fund Based-Cash Credit	Long Term/ Short Term	150.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BB+ (Stable)/ [ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)/ [ICRA]A4+; ISSUER NOT COOPERATING	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-
3	Non-fund based-Interchangeable-Others	Short Term	(26.00)^	-	[ICRA]A2	-	-	-	-	-	-	-
4	Term Loan	Long Term	-	-	-	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
5	Non fund Based-Bank Guarantee	Short Term	-	-	-	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A4+; ISSUER NOT COOPERATING	-	[ICRA]A2	-	[ICRA]A2	[ICRA]A2
6	Unallocated	Long Term	-	-	-	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

^Interchangeable with CC limit of HDFC Bank

Complexity level of the rated instruments

Instrument	Complexity Indicator
LT/ST Fund Based/Non-Fund Based - Cash Credit	Simple
ST Non-fund based-Interchangeable- Others	Very Simple

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	Long Term / Short Term- Fund Based/ Non-Fund Based-Cash Credit	-	-	-	150.00	[ICRA]BBB+(Stable)/ [ICRA]A2
NA	Short-term-Non-fund based-Interchangeable-Others	-	-	-	(26.00)^	[ICRA]A2

Source: Company
^Interchangeable with CC limit of HDFC Bank

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Jayanta Roy
91-33-71501100
jayanta@icraindia.com

Priyesh Ruparelia
91-22-61693328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
91-33-7150 1111
sumit.jhunjhunwala@icraindia.com

Prerna Aggarwal
91-124-4545380
prerna.aggarwal1@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches