

December 31, 2024

Virgo Aluminum Limited: Ratings reaffirmed; 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	150.00	217.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed/assigned for enhanced amount
Long term- Fund based – Term Loan	-	33.00	[ICRA]BBB+ (Stable); assigned
Short term - Non-fund based – Interchangeable - Others	(26.00)^	(26.00)^	[ICRA]A2; reaffirmed
Total	150.00	250.00	

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

Rationale

The ratings of Virgo Aluminum Limited (VAL) takes into consideration the established experience of the promoters in the aluminum industry, its widespread distribution network and its well-established relationships with customers. ICRA notes that VAL's revenue jumped 20.3% to Rs. 755.3 crore in FY2024 from Rs. 627.6 crore in FY2023 with a healthy increase in sales volume following the commencement of the Ahmedabad plant and stable operations at the Ambala unit. However, the operating margin declined to 5.2% in FY2024 from 8.0% in the previous year owing to operational disruption at its Kala Amb plant for almost a month.

Further, export sales, which garner higher margins, witnessed a dip in FY2024. The debt coverage indicators also remained moderate with an interest coverage of 3.1 times in FY2024. However, the profitability and debt coverage indicators are expected to improve in the current fiscal with the stabilisation of the Ahmedabad plant, as reflected in the half yearly performance. The company reported a turnover of Rs. 487.7 crore, operating margin of 6.9% and interest coverage of 4.8 times in H1 FY2025. For the full fiscal, the revenue and operating margins are likely to follow the half-yearly trend and are expected to remain healthy.

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

Stabilisation of Ahmedabad plant – The Ahmedabad plant commenced operations in January 2022. However, the capacity utilisation remained low in FY2023 due to non-stabilisation of the unit. The Ahmedabad plant became fully operational in April 2023 and the utilisation improved to 94% in FY2024. This improved the company’s sales volume in FY2024.

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.

Credit challenges

Decline in operating margins in FY2024; improvement expected in FY2025 – The company’s operating margins declined to 5.2% in FY2024 from 8.0% in FY2023 owing to the company’s focus on boosting sales from the Ahmedabad plant. Further, the Kala Amb plant remained shut for 20-25 days due to a fire incident which halted the operations and impacted the margins. Export sales, which garner higher margin, also declined in FY2024. The margins are expected to improve in FY2025, with the company reporting 6.9% operating margin in H1 FY2025.

Working capital intensive operations amid stiff competition – VAL manufactures 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 – VAL is exposed to pricing risks 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). 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 and sufficient cushion in the working capital limits, reflected in average fund-based limit utilisation of 54% for the last 12 months ended November 2024. 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 the debt protection metrics and a healthy liquidity position on a sustained basis, could lead to an upgrade. Additionally, an RoCE above 18%, on a sustained basis, might also trigger an upgrade.

Negative factors – The ratings could be revised downwards in case of any adverse impact on the company’s revenue/profitability, resulting in a deterioration of the debt protection metrics. An interest coverage ratio below 3.5 times, on a sustained basis, could result in a downgrade. A deterioration in the working capital intensity, weakening the liquidity profile, might also weigh on the ratings.

Analytical approach

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

About the company

VAL, incorporated in 1989 as Alpha Reprographics Limited, got its present name in 2009. The company has two plants - one at Kala Amb in Himachal Pradesh and the other in Ahmedabad with a combined installed capacity of 36,000MTPA. It manufactures aluminum sheets and coils of sizes varying from 0.1 mm to 4 mm. The products manufactured by the company find application in various end-user industries such as power, automobiles, consumer durables, furniture and architecture application. The company uses a mix of aluminum ingots and aluminum scrap as raw material.

Key financial indicators (audited)

Virgo Aluminum Limited	FY2023	FY2024	H1FY2025*
Operating income	627.60	755.29	487.67
PAT	12.05	3.41	15.77
OPBDIT/OI	8.0%	5.2%	6.9%
PAT/OI	1.9%	0.5%	3.2%
Total outside liabilities/Tangible net worth (times)	1.75	2.39	2.21
Total debt/OPBDIT (times)	3.78	7.00	4.54
Interest coverage (times)	4.19	3.10	4.83

Source: Company, ICRA Research; *Provisional numbers; 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	Current rating (FY2025)			Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Dec 31, 2024	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022	
					25-Sep-2023	07-Aug-2023	28-Apr-2023	-	13-Jan-2022	30-Dec-2021
1	Fund based/Non-fund based - Cash credit	Long term/Short term	217.00	[ICRA]BBB+ (Stable)/ [ICRA]A2	[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
2	Non-fund based – Interchangeable – Others	Short term	(26.00)^	[ICRA]A2	[ICRA]A2	-	-	-	-	-
3	Term loan	Long term	33.00	[ICRA]BBB+ (Stable)	-	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Non fund based - Bank guarantee	Short term	-		-	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A4+; ISSUER NOT COOPERATING	-	[ICRA]A2	-
5	Unallocated	Long term	-		-	-	-	-	-	[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
LT -Fund based-Term Loan	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	-	-	-	217.00	[ICRA]BBB+(Stable)/ [ICRA]A2
NA	Long term -Fund based-Term Loan	-	-	-	33.00	[ICRA]BBB+(Stable)
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

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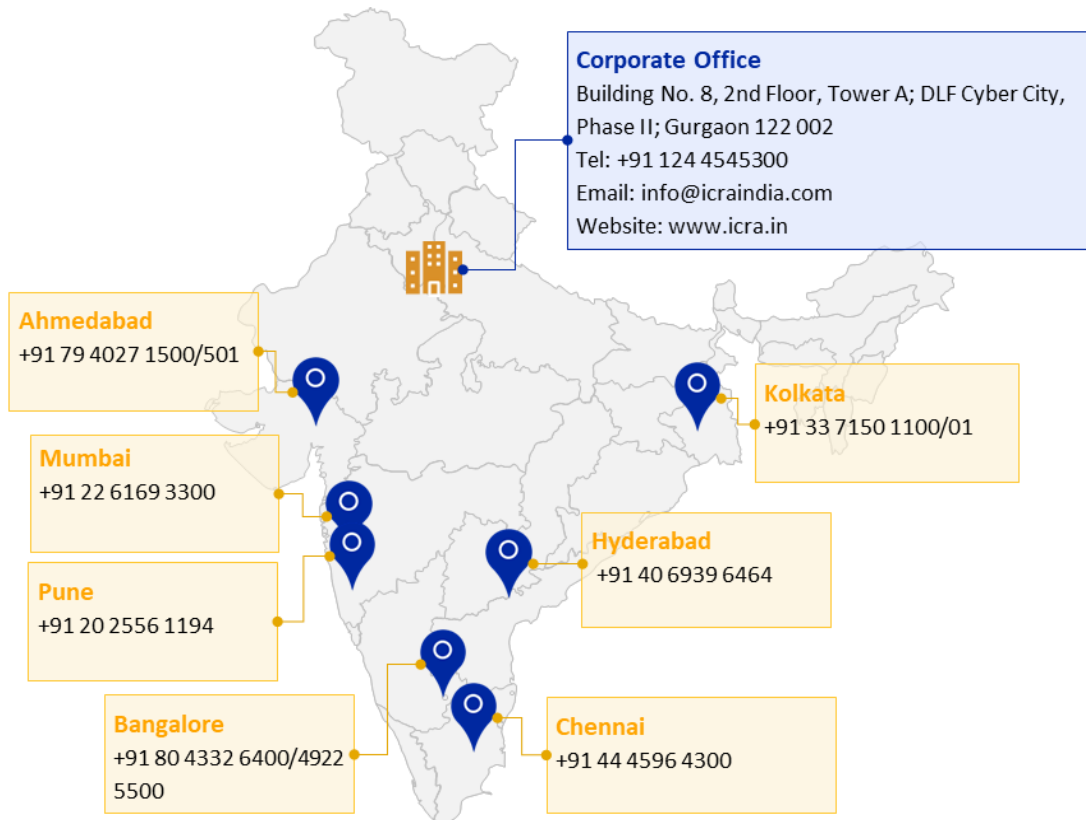
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