

April 09, 2021

## Virgo Industries: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits	12.0	12.0	[ICRA]A1; reaffirmed
Fund-based Limits	27.0	27.0	[ICRA]A(Stable); reaffirmed
<b>Total</b>	<b>39.0</b>	<b>39.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has taken a consolidated view of Virgo Laminates Limited (VLL), Virgo Decors Private Limited (VDPL) and Virgo Boards Limited (VBL) and Virgo Industries (VI) (referred to as the Group or the Virgo Group). This is because all the entities have strong operational, financial and managerial linkages,

The rating reaffirmation takes into account the healthy growth in operating income in FY 20 as well as continued growth in FY 21 a well despite the pandemic. This growth was however accompanied with slight decline in operating margins as well as increase in Debt/OPBDITA levels. Moreover, the working capital intensity still remains very high albeit some improvement in FY 20. This apart, funds have been invested in group companies in the current year. Further increase in investments in other companies resulting in deterioration in liquidity profile would also be key monitorable going forward. ICRA also takes note of the completion of the merger formalities, where all the companies except VI being merged under the flagship company VLL. The merger of VI into VLL is also under process and is expected to complete by FY2022.

The rating continues to factor in the brand strength of the Virgo Group in the laminates business, given that it is one of the leading players in the domestic market with a nationwide strong distribution network. Also, the extensive experience of the promoters in the laminates industry is a credit strength. The rating also draws comfort from the Group's strong market share in the domestic market, which is steadily growing over the last few years, backed by expanding capacity and distribution network. The ratings continue to positively factor in the strong financial risk profile characterised by healthy debt coverage metrics and adequate liquidity position of the Group.

However, the ratings continue to be constrained by the Group's high working-capital intensity, given the long credit periods the Group extends to distributors. The receivable cycle has been improving but remains over 120 days, thereby leading to stretched working capital intensity. This apart, the realizations remain lower as compared to other established players in the laminates market. Further, the business remains exposed to intense competition from large players and small unorganised players. The Group is also exposed to raw material price risks and risks of adverse foreign exchange rate fluctuations, though it has not faced any major impact in the last few years. ICRA also notes the persistent risk of withdrawal of capital from VI due to the partnership nature of constitution of the firm. ICRA takes note that the incremental capex was undertaken in order to increase the overall capacity of the company from 16.5 million sheets per annum of production to 35.7 million sheets per annum. The fresh capex was undertaken in order to support revenues in domestic market penetration of Southern India and increase the exports. Although, the export revenue could not pick up owing to travel bans imposed in the wake of Covid-19 pandemic.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the Virgo Group will continue to benefit from its experienced promoters and its recently concluded capex to increase capacity. The increase in realizations on account of higher export share remains critical and remains yet to be seen.

## Key rating drivers and their description

### Credit strengths

**Healthy growth in scale** – The Virgo Group, has grown significantly over the last 3-4 years with consistent growth in revenues and volume sales. The group is highest in volume sales in the domestic market as compared to its peers in the laminates segment. In terms of revenues, the group has grown at an CAGR of ~30% between FY2017 and FY2020. The company is expecting a growth of approx. 10% in revenues in FY2021 as well over the revenue of Rs 723 crore in FY2020. In terms of volumes, post the recently concluded capex, the group has highest capacity in the country with total capacity of 35.7 million sheets per annum. The group has been utilizing healthy capacity out of its existing setup though.

**Established track record of promoters in laminates industry with healthy distribution network** – The Virgo Group, though a relatively new entrant in the market, has been able to establish a leading position in the domestic market, aided by a distribution network of 31 depots and ~6,000 dealers. The annual sales volume was ~14.5 million sheets in FY2019 and ~17.3 million in FY2020. The Group's healthy growth in the last four years has been aided by consistent capacity expansion and strong marketing channels. However, being a new entrant and with more dealings in the domestic market, its average realisations are lower than the larger laminate manufacturers, resulting in a relatively lower scale.

**Increased capacity and expected export contribution due to recently concluded capex** – The group has been consistently generating growth in its revenues owing to a consistent increase in capacity and healthy utilisation levels of same. The group has the highest volumes in terms of domestic sales but still has limited presence in the exports market than its major competitors. Subsequently, the Group had invested in increasing the capacity to cater the exports market through its plant in Gujarat and also invested in setting up a plant in Andhra Pradesh to further penetrate the domestic market in South India. Post commencement of both the plants, the total capacity of the Group has reached 35.7 million sheets per annum. The Gujrat plant which was expected to provide impetus to the export share of revenues has not been able to ramp up in absence of group's participation in exhibitions, fares in foreign markets due to ongoing travel bans in the wake of Covid-19 pandemic.

**Strong financial profile** – The Group's profitability levels continue to be healthy with operating margin at 18.24% in FY2020 amid consistently increasing revenues. The capital structure is conservative with limited dependence on debt due to healthy cash accruals with strong gearing at 1.01 times in FY2020. The debt coverage metrics are robust, as reflected in interest coverage of 8.62 times and DSCR of 5.95 times in FY2020. The coverage metrics have deteriorated as compared to Fy2019 as the debt levels have increased, availed in order to fund the capex, but remain comfortable. Further, the Group's liquidity position is comfortable, with substantial unutilised bank limits.

### Credit challenges

**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 of around 100 days also remains high due to the large number of product variants and the associated raw material stocking. Also, as part of the group's penetration strategy for capturing the market share, the company has been historically extending high credit period to its buyers. Although, there has been improvement in the receivable cycle where the debtor days have improved from 148 days in FY2020 to 120 days in FY2019. But, still remains high and has resulted in working capital intensity at 44% in FY2020 as compared to 51% in FY2019.

**Lower realizations** – The group has been highest in the country in terms of volumes and that has been largely due to group's higher penetration in the products with lower realizations. The group's realizations are significantly lower than other established players in the laminates market segment. However, the capex done in order to increase the export share is expected to result in higher realizations, going forward. But the pick-up in the export revenue is yet to be seen. This apart, the group is launching its premium segments and is planning to increase its market share in the premium segment. To aid the sales, the group is increasing its marketing budget from FY2022 onwards.

**Forex and raw material price fluctuation risk amid intense competition**– In the absence of a formal hedging mechanism, the group remains exposed to forex risks. Further, the prices of many key raw materials such as melamine, phenol, etc. are volatile. Given the competitive market, the ability to pass on price increases is limited. The company faces intense competition from large organised and small unorganised players in the decorative laminates market. The major organised players include Greenlam Industries Limited, Merino Industries Limited and Century Plyboards India Limited. Being a relatively new entrant, the Group’s average realisations remain lower than the larger players, thereby exposing it to competition from unorganised players as well. The risk of withdrawal of capital persists, given one of the consolidated entity i.e. VI, is a partnership firm.

## Liquidity position: Adequate

On account of average utilization of 48% with approx. regular cushion of approx. Rs 50 crore in the fund based limits and healthy cash balances of Rs 9 crore, the liquidity is adequate. Given majority of internally funded capex plans and limited repayments in the years going forward, the company is likely to have cash surpluses in the medium term. Liquidity is further supported by the unsecured loans from the promoters which stood at Rs 113 crore as on March 31<sup>st</sup>, 2020.

## Rating sensitivities

**Positive factors** – Significant improvement in the scale of operations along with the timely ramp up in the ongoing capacity expansion may result in an upgrade. The improvement in the working capital intensity may also trigger an upgrade. TD/OPDITDA below 1.5 times on a sustainable basis might also result in an upgrade.

**Negative factors** – The rating may be downgraded in the case of sustained deterioration in the working capital intensity from the current levels. The rating can also be downgraded if there are delays in ramp up in the capacity out of fresh facilities and any further addition in long-term debt to fund the capex resulting in TD/OPBDITA of 2.25 times and beyond.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Virgo Laminates Limited, Virgo Industries, Virgo Decors Private Limited and Virgo Boards Limited, which are all enlisted in Annexure-2

## About the company

The firm 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 Mogha district of Punjab. The Group has since moved into 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 158 lakh 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 entities which are involved in the manufacturing of laminates are VLL, VDPL and VBL. Virgo Plywoods Limited (VPL) is in plywood manufacturing and Virgo Aluminium Limited (VAL) manufactures aluminium sheets and coils.

## Key financial indicators (Consolidated- audited)

VLL Consolidated	FY2018	FY2019	FY2020
Operating Income (Rs. crore)	512.58	583.27	722.69
PAT (Rs. crore)	70.41	75.83	89.88
OPBDIT/OI (%)	19.14%	18.31%	18.24%
RoCE (%)	32.63%	28.84%	30.37%
Total Outside Liabilities/Tangible Net Worth (times)	1.17	1.38	1.38
Total Debt/OPBDIT (times)	1.32	1.82	1.84
Interest Coverage (times)	10.82	10.09	8.62
DSCR (times)	7.56	8.46	5.95

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
1 Non-fund based	Short-term	12.0	-	Apr 09, 2021	Nov 05, 2019	June 06, 2018	-	
2 Fund based	Long-term	27.0	-	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	-	

## 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](#)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non- fund based	NA	NA	-	12.0	[ICRA]A1
NA	Fund based	NA	NA	-	27.0	[ICRA]A(Stable)

*Source: Company*

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Virgo Laminates Limited	100.0%	Full Consolidation
Virgo Industries	NA	Full Consolidation
Virgo Boards Limited	100.0%	Full Consolidation
Virgo Decors Private Limited	100.0%	Full Consolidation

*Source: Virgo Industries*

**Note:** ICRA has taken a consolidated view of four associate Group/firms while assigning the ratings.

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