

October 06, 2017

## Virgo Aluminium Limited

### Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term Fund-based	22.25	[ICRA]BBB+ (Stable); reaffirmed
Long-term Fund-based TL	0.00 (reduced from 2.97)	-
Short-term Non-fund Based	29.25 (enhanced from 27.75)	[ICRA]A2; reaffirmed
Long-Term Unallocated	3.50 (enhanced from 2.03)	[ICRA]BBB+ (Stable); reaffirmed
<b>Total</b>	<b>55.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) and the short-term rating of [ICRA]A2 (pronounced ICRA A two) on the Rs. 55.00-crore bank facilities of Virgo Aluminium Limited (VAL). The outlook on the long-term rating is Stable.

### Rationale

The ratings are based on a consolidation of the business and financial risk profiles of VAL with its Group entities, collectively referred to as the 'Virgo Group' on account of common management, common brand name, common manufacturing locations and certain financial linkages in the past.

The ratings reaffirmation continues to be supported by the established promoter group and the leading position of the Group in the domestic laminate industry with a widespread distribution network. The ratings also factor in the consistent growth in operations at a consolidated level with healthy profitability margins and conservative financial risk profile with minimal long-term debt and unutilised sanctioned limits. VAL's ratings, however, are constrained by the company's modest operating scale, risks related to fluctuation in prices of raw material and foreign currency as well as competition from other players in the industry. ICRA also notes that the management plans to consolidate the laminates business into one entity given the strengthening market position and their primary focus in this segment.

Going forward, the Group's ability to ramp up production volumes, register good growth and maintain its coverage metrics will remain key rating sensitivities. Changes in Group structure, if any, will also be closely monitored.

### Key rating drivers

#### Credit strengths

- **Established position of promoters in domestic laminates business** – The Virgo Group was established by Mr. R.P. Arora, in 1975 by setting up a rice mill in the Mogha district of Punjab. The Group gradually moved into manufacturing and at present has a diversified presence in decorative laminates, aluminium sheets and coils, plywoods, and boards. The Group is at present managed by Mr. Arora's sons – Mr. Bishamber Dass Arora, Mr. Surender Pal Arora, Mr. Tilak Raj Arora, Mr. Praveen Kumar Arora – who have considerable experience in the field. The Group is one of the largest players in the domestic laminates market with a total annual capacity of around 144 lakh sheets of laminates.

- **Strong distribution network across India** – Owing to their two decades of experience in the business, the promoters have long-standing relationship with suppliers and buyers. The laminate-manufacturing companies have a wide network of more than 1,000 dealers spread across the country. As of now, the company has a network of 17 depots in Virgo Industries. VAL also derives comfort from the strengthening position of the Virgo brand.
- **Healthy growth in revenue and profitability margins on a consolidated basis** – The Group's revenue has increased at a CAGR of 20% in the past four years aided by the set up of new capacities in new entities like Virgo Décor Private Limited. However, the Group's focus remains on expanding the laminates business. The risk profile of the Group continues to be conservative with no significant long-term debt and unutilised working capital limits. The implementation of Goods and Sales Tax (GST) is expected to create a level playing field for all players with a decline in the price differential.

#### **Credit weaknesses**

- **Highly competitive business environment** – Despite intense competition from a large number of unorganised and organised players, the market position of the Group has been improving consistently in the laminates space. VAL, on the other hand, remains exposed to competition from other players.
- **Working-capital intensive operations** – The working-capital intensity of the Group has increased over the past two years on the back of higher credit period being offered to clients to sell at better prices and to capture market share. Despite the increase in debtor days, the liquidity position remains strong due to healthy accruals and unutilised working capital limits.
- **Exposure to raw material price risks and forex risks** – As the procurement is not order backed, any adverse changes in the raw material price can impact the profitability of the Group. The company also imports a substantial portion of its raw materials, which exposes it to foreign exchange fluctuation risks. ICRA notes that the management does not undertake any derivative transactions but defined hedging mechanism and books forwards as per requirement on order basis.

#### **Analytical approach**

For arriving at the ratings, ICRA has consolidated VAL with its Group entities – Virgo Industries (VI), Virgo Laminates Limited (VLL), Virgo Decor Private Limited (VDPL), Virgo Boards Limited (VBL), Virgo Plywood Limited (VPL), collectively known as the Virgo Group. However, ICRA has also taken note of the management's intent of consolidating the laminates business.

#### **Links to applicable criteria**

[Corporate Credit Rating Methodology](#)

#### **About the company**

VAL manufactures aluminium sheets and coils that find application in various end-user industries such as power, automobiles, consumer durables, furniture and architecture application etc. VAL's plant achieved COD in April 2011, and became fully operational in October 2011. The plant manufactures aluminium sheets and coils with an installed capacity of 18,000 MT per annum of sizes varying from 0.1mm to 4mm. The Virgo Group was started 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 plywoods, boards, decorative laminates 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 144 lakh sheets of laminates.

In FY2017, on a provisional basis, VAL reported profit after tax (PAT) of Rs. 9.31 crore on an operating income (OI) of Rs. 151.62 crore compared with a PAT of Rs. 2.53 crore on an OI of Rs. 146.15 crore in the previous year.

On a provisional basis, the Group reported a consolidated PAT of Rs. 51.94 crore on an OI of Rs. 590.61 crore in FY2017 compared with a PAT of Rs. 31.05 crore on an OI of Rs. 485.16 crore in the previous year.

**Key financial indicators**

<b>Particulars</b>	<b>FY2015 (Audited)</b>	<b>FY2016 (Audited)</b>	<b>FY2017 (Provisional)</b>
Operating Income (Rs. crore)	150.53	146.15	151.62
PAT (Rs. crore)	2.96	2.53	9.31
OPBDIT/ OI (%)	8.72%	8.51%	9.90%
RoCE (%)	13.14%	11.44%	24.48%
Total Debt/TNW (times)	1.60	0.96	0.18
Total Debt/OPBDIT (times)	3.21	2.27	0.47
Interest Coverage (times)	2.14	4.40	10.30
NWC/ OI (%)	19.64%	8.95%	6.72%

*\*Profit before tax*

*OI: Operating Income; 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);*

*NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years**  
**Table**

S.No	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years	
		Type	Amount outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016
				<b>October 2017</b>	-	<b>March 2016</b>
1	Cash Credit	Long Term	22.25	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
2	Letter of Credit	Short Term	29.25	[ICRA]A2	-	[ICRA]A2
3	Unallocated	Long Term	3.50	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
4	Term Loan	Long Term	0.00		-	[ICRA]BBB+ (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 [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance/ Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	22.25	[ICRA]BBB+ (Stable)
Letter of Credit	-	-	-	29.25	[ICRA]A2
Unallocated	-	-	-	3.50	[ICRA]BBB+ (Stable)

Source: HTIPL

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