

Virgo Polymers (India) Ltd

April 15, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term, term loans	1.50	1.50	[ICRA]BB+(Stable); Reaffirmed
Long-Term, fund-based	10.00	10.00	[ICRA]BB+(Stable); Reaffirmed
Long -Term, Unallocated	0.30	0.30	[ICRA]BB+(Stable); Reaffirmed
Short-Term, Non-fund based	12.00	12.00	[ICRA]A4+, Reaffirmed
Short-Term, Unallocated	4.00	3.95	[ICRA]A4+, Reaffirmed
Total	27.80	27.75	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider the established track record of Virgo Polymers (India) Ltd (Virgo) in the flexible intermediate bulk carriers (FIBC) manufacturing. ICRA notes that it is a part of the Shyam Group of companies, which has extensive experience in polymer trading that offers sourcing advantages. The ratings also note healthy growth in revenue witnessed by the company in FY2018 and 9M FY2019 and modest improvement in profitability and coverage metrics aided by increase in revenue share from higher margin FIBC manufacturing. The ratings further factor in Virgo's comfortable capital structure and moderate working capital intensity as well as the favourable demand outlook for FIBC in both domestic and international markets amid increased conversion from other forms of packaging, together with an increasing demand from end-user segments.

The ratings, however, remains constrained owing to intense competition from domestic and international manufacturers, which limits pricing flexibility. Profitability indicators are also sensitive to fluctuation in forex rate and underlying raw material prices. Nevertheless, with increased procurement from domestic suppliers in the recent period, the company has mitigated the forex risk to an extent.

Outlook: Stable

ICRA expects Virgo to benefit from its vast experience in the FIBC manufacturing segment and the extensive track record of the Shyam Group in the polymer trading industry, which provides sourcing advantages. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or any stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Established track record of the Group in the polymer industry; considerable experience of the promoters - Incorporated in 1985, Virgo is mainly involved in manufacturing FIBC, besides dealing in polymer trading. Virgo also acts as a del-credere cum consignment stockist (DCA/CS) agent for HPCL Mittal Energy Limited (HMEI). Virgo benefits from

being part of the Shyam Group, which has over three decades of track record in trading petrochemicals and polymers, providing sourcing advantages.

Long-term relationship with customers - Virgo obtains repeat orders from many international customers for its FIBC products due to its well-established relationships. It mainly caters to overseas secondary traders and retailers. Customer concentration for the polymer granules trading segment also remains moderately high.

Moderate working capital intensity - Working capital intensity remained moderate with NWC/OI of 18% in FY2018, although it witnessed increase from ~8% in preceding fiscal due to higher credit period extended to export customers. This also led to increase in Virgo's gearing to 1.5 times as on March 31, 2018 compared to 0.2-0.5 time levels witnessed in previous years.

Healthy demand outlook for FIBC segment - The demand outlook remains favourable for FIBC in both domestic and international markets on the back of increased conversion from other forms of packaging, together with an increasing demand from end-user segments.

Credit challenges

Moderate scale of operations with thin and fluctuating profitability indicators - The company has a moderate scale of operations, with an operating income (OI) of Rs. 115.3 crore in FY2018 (PY 91.2 crore). The revenue witnessed a healthy growth in 9M FY2019 at ~Rs. 86.2 crore, mainly driven by a growth in FIBC sales FY2017. Its operating profit margin and net profit margin remained low in the range of 1.5-2.6% and 0.2-0.5% in the recent years till FY2017 and are susceptible to volatility in polymer prices and forex rates. The trend continued in FY2018 when the OPM and NPM was 2.3% and 0.7%, respectively. However, with favourable shift in sales mix towards FIBC segment, the OPM and NPM has witnessed some improvement in current fiscal. The company has also increased procurement from domestic manufacturers in recent fiscals which has mitigated the forex risks to an extent.

Stiff competition limits pricing flexibility - The company faces intense competition in the highly fragmented FIBC manufacturing segment in both domestic and international markets, which limits its pricing flexibility.

Moderate coverage indicators - Due to thin profit margins, the coverage indicators have been moderate for the company, with the interest coverage remained adequate in the range of 0.9-1.8 times in the last few years. TD/OPBDITA increased to 7.8 times as on March 31, 2018 owing to increase in borrowing compared to 4.0 times as on March 31, 2017. The gearing also increased from 0.5 times as on March 31, 2017 to 1.5 times as on March 31, 2018 due to increase in working capital debt requirements.

Liquidity position

With only modest term loan repayment obligations, the company's liquidity position is expected to remain adequate supported by expected cash accruals, cash in hand and undrawn working capital limits.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable.
Standalone	Ratings are based on standalone financial statements

About the company

Virgo is a part of the Shyam Group of companies and is involved in manufacturing FIBC bags out of its manufacturing facilities in Chennai. Incorporated in 1985 as Virgo Polybags Private Limited, with an initial capacity of 180 MTPA, its current installed capacity stands at 4,800 MTPA. The company sells its products to numerous players in the domestic and international markets. It also operates as a DCA/CS agent for HMEL for polypropylene in Tamil Nadu, Kerala, Pondicherry and Karnataka. It caters to the bulk packaging needs of various industries across India and transships its products to 10 countries in four continents across the globe.

In FY2018, Virgo reported a net profit of Rs. 0.8 crore on an OI of Rs. 115.3 crore, as compared to a net profit of Rs. 0.3 crore on an OI of Rs. 91.2 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	91.2	115.3
PAT (Rs. crore)	0.3	0.8
OPBDIT/OI (%)	1.7%	2.3%
RoCE (%)	8.7%	8.1%
Total Debt/TNW (times)	0.5	1.5
Total Debt/OPBDIT (times)	4.0	7.8
Interest coverage (times)	1.4	1.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Apr 2019	Date & Rating FY2019	Date & Rating FY2017	Date & Rating FY2017
1 Term Loans	Long-Term	1.50	1.50	[ICRA]BB+; (Stable)	[ICRA]BB+; (Stable)	[ICRA]BB+; (Negative)	[ICRA]BB+; (Stable)
2 Cash Credits	Long-Term	10.00	10.00	[ICRA]BB+; (Stable)	[ICRA]BB+; (Stable)	[ICRA]BB+; (Negative)	[ICRA]BB+; (Stable)
3 Unallocated	Long-Term	0.30	0.30	[ICRA]BB+; (Stable)	[ICRA]BB+; (Stable)	[ICRA]BB+; (Negative)	-
4 Letter of Credit	Short-Term	10.00	10.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
5 Bank Guarantee	Short-Term	2.00	2.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
6 Unallocated	Short-Term	3.95	3.95	[ICRA]A4+	[ICRA]A4+	-	-

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

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	Term Loans	Jan 2018	-	Mar 2022	1.50	[ICRA]BB+(Stable)
NA	Cash Credit	-	-	-	10.00	[ICRA]BB+(Stable)
NA	Unallocated Limits	-	-	-	0.30	[ICRA]BB+(Stable)
NA	LC	-	-	-	10.00	[ICRA]A4+
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A4+
NA	Unallocated Limits	-	-	-	3.95	[ICRA]A4+

Source: Virgo Polymers (India) Ltd

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